

RESTRUCTURING THE HUMAN RESOURCES DEPARTMENT

OBJECTIVES

METHODS

RESULTS

ADP PUBLISHED BY
SARATOGA INSTITUTE
SPONSORED BY
AMERICAN MANAGEMENT ASSOCIATION

title: Restructuring the Human Resources Department : Objectives, Methods, and Results : a Report

author:

publisher: AMACOM Books

isbn10 | asin: 0814479677

print isbn13: 9780814479674

ebook isbn13: 9780585040752

language: English

subject Personnel departments, Personnel management, Organizational change.

publication date: 1997

lcc: HF5549.R484 1997eb

ddc: 658.3

subject: Personnel departments, Personnel management, Organizational change.

Restructuring the Human Resources Department

Objectives, Methods, Results

A REPORT BY SARATOGA INSTITUTE

American Management Association
New York Atlanta Boston Chicago Kansas City San Francisco Washington, D.C.
Brussels Mexico City Tokyo Toronto

This report is available at a special discount when ordered in bulk quantities. For information, contact Special Sales Department, AMACOM, a division of American Management Association, 1601 Broadway, New York, NY 10019.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert advice is required, the services of a competent professional person should be sought.

Library of Congress Cataloging-in-Publication Data

Fitz-enz, Jac.

Restructuring the human resources department : objectives, methods, and results : a report by the Saratoga Institute / Jac Fitz-enz.

p. cm.

ISBN 0-8144-7967-7

1. Personnel departments. 2. Personnel management.

3. Organizational change. I. Saratoga Institute.

HF5549.F558 1997

658.3dc21

97-5778

CIP

© 1997 Saratoga Institute

All rights reserved.

Printed in the United States of America.

This publication may not be reproduced, stored in a retrieval system, or transmitted in whole or in part, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of AMACOM, a division of American Management Association, 1601 Broadway, New York, NY 10019.

Printing number

10 9 8 7 6 5 4 3 2 1

Contents

Preface	vii
I Introduction	1
II Report Methodology	3
III Executive Summary	5
Overview	5
Prime Restructuring Lesson	6
Driving Principles for Restructuring HR	6
Key Findings	8
1. The Process of Restructuring HR	8
2. The New Human Resources Organization	9
3. The Financial Component: Linking HR to the Business	12
4. How the New HR Business Model Affects Competitive Advantage	13
IV Success Factors	15
The Six Leading Indicators for Successful Restructuring	15
1. Planning	15
2. Business Focus	17

3. Communication	18
4. Teamwork	18
5. Commitment	18
6. Benchmarking	19
General Tips	20
V The Process of Restructuring HR	23
Change Reasons	23
Time Requirements	27
Best Practices Used	30
The Current Focus	30
Future Areas of Concern	32
The Role of External Consultants	32
VI The New Human Resources Organization	35
Human Capital Management: What It Is and What It Looks Like	35
Functions and Titles	36
Structure and Operations	37
Staffing the HR Function: New Trends	42
Administrative versus Professional Staff	43
HR Staff to Total Employees	44
HR Management Levels	45
CEO and HR Reporting Relationship	45
Restructuring's Effect on the Traditional HR Function	46
VII The Financial Component: Linking HR to the Business	49
Restructuring's Effect on the HR Budget	49
Shifting HR Responsibilities	50
Decentralization and Delegation	51

Outsourcing	53
Reassignment of HR Staff	55
Tangible Benefits of Restructuring	57
Measures: Evaluation of Success	59

VIII	How the New HR Business Model Affects Competitive Advantage	61
	Future Human Asset Issues	61
	The Top Four Concerns	62
	New Workforce Needs	64
	The HCM Structure and Company Profitability	65
	Case Studies	65
IX	A Model for Restructuring HR	69
	Unisys' Approach to Reengineering HR	69
	A Business Need for Change	69
	Reengineering Defined	70
	Reengineering Guidelines: Step-by-Step Description	71
	Unisys' New Business Model	80
X	How to Design the HCM Structure	83
	Key Issues	83
	Key Success Points	84
	Ensuring Effectiveness	86
XI	Looking Ahead: The 3R Path to Success	87
	RestructuringReskillingRetaining	87
	Restructuring	88
	Reskilling	89
	Retaining	90
	The Short, Sure Path to Success	91
XII	Appendix	93
	Worksheet	93
	Survey Questionnaire	96
	Human Resources Restructuring Study Participants	100

Preface

This report was produced by Saratoga Institute (SI) for the American Management Association (AMA). Its objective was to study why and how companies are restructuring their human resources departments. The report penetrates beyond typical academic or association efforts to the heart of the topic.

Many companies today are either engaged in restructurings of one degree or another, or they are considering making the effort. Our belief is that something as complex as repositioning and redesigning a key corporate function needs and deserves models of effectiveness. To this end SI began preparations for this study in mid-1996. Working with a base of knowledge and the experience gained from previous SI research projects and consulting assignments, SI mailed an inquiry letter and questionnaire to approximately 600 large firms across the United States. (The letter and questionnaire can be found in the Appendix.) In order to qualify, HR directors had to have conducted, or be in the process of conducting, a major restructuring of their function. Through a rigorous selection process, twenty-six human resources departments from major companies were qualified for the report.

Preliminary research started in June. In early September the questionnaire was mailed. All data was in house and analysis began by November 1. Data from the inquiry was augmented with information and analyses from other SI benchmark reports. Along with gathering data on a number of re-

structuring perspectives, the study aimed to uncover lessons learned. Since every organization is unique, benchmark data must be couched within its rationale and concluded with lessons learned. Understanding the thought processes that drove a restructuring project is often as valuable as learning the outcomes of the process.

The project was managed by Barbara Davison under the supervision of Dr. Jac Fitz-enz. Marilyn Parmley provided administrative and graphics support.

SI invites readers to contact our professional staff to discuss the findings in this report and implications for human resources and human asset management.

I

Introduction

CEOs and human resources directors have set a new vision for HR.

Since 1977, Saratoga Institute (SI) has supported thousands of clients worldwide with quantitative human performance assessment data and human asset management training, products, and services. Today, SI has offices on six continents, supporting clients in forty countries, across every industry sector. Currently more than 4,500 organizations in the United States public, governmental, and not-for-profit are solving problems and improving their operations using SI information, methodologies, and training.

Recognized as the leading global source of quantitative data and positioning strategies, SI is continuously requested to provide information on companies who are "the best" in some function. This latest in the series of best practice research projects, published in partnership with the American Management Association (AMA), looks at the role and structure of human resources functions today.

Competition, cost controls, customer demands, and the chaos of change are driving human resources directors to reevaluate their role and contribution of their function. It is clear that human resources departments in even the largest, best run companies are suffering from a lack of customer confidence. In response to the perception of excessive cost and irrelevance to business problems, CEOs and top human resources directors are creating a new vision for HRa vision that includes value-adding tangi-

ble human and financial factors. The mandate to add "measurable value" is driving HR's total reengineering efforts. HR's goal is now shifting from an administrative process center to a strategic partnership within organizations that succinctly manages the human assets in business. This report uncovers the current strategies and trends in this movement.

II Report Methodology

In order to participate in the study, HR must have significantly restructured the function.

Using SI's proven survey methodology, a comprehensive four-page questionnaire was designed. It included the following topics:

- Time required for restructuring the HR department
- Reasons and priorities for restructuring
- Effect on the HR department budgets and staff
- New functions/departments now reporting to HR
- Today's measures for HR effectiveness
- Levels of management in HR
- HR functions outsourced, delegated, or eliminated
- Restructuring's effect on the traditional HR staff functions
- Use of shared services
- Use of employee response centers and corporate universities
- The future role for HR and critical human asset issues
- Recommendations for successful restructuring programs

Using SI's client base and contacts in Fortune 1000 organizations, over 600 questionnaires were sent. In order to participate in the study, the human

resources function must have undergone significant restructuring or currently be in the process in the past five years. All data was collected during the last half of 1996. Of those companies responding, twenty-six met our criteria for inclusion in this study. All but two were in the Fortune 500 list and most were within the top 100. Many of these firms operate multinationally. Data from other recent research and consultation experience are also incorporated into this report. The participants represented the following industry groups:

- Automotive
- Biotechnology
- Chemical
- Computers/Computer Services
- Electronics
- Finance/Insurance
- Food Processing
- General Manufacturing
- Health Care
- Imaging
- Nondurable Consumer Products
- Petroleum
- Pharmaceutical/Biotech
- Tire & Rubber
- Utilities

The data presented in this report are the result of SI's in depth research and statistical analysis processes. The findings are based on factual information and hard data collected from the organizations themselves. By reading the analyses and statistical data reported herein, you'll learn how these companies are restructuring their human resources departments their strategies and approaches, the uniqueness of their practices, new departmental structures, key lessons learned, and bottom line value added.

Copies of the Survey Questionnaire and the Participant List are included in the Appendix of this report.

III

Executive Summary

Overview

Because many companies are restructuring HR, we may be witnessing a mass migration.

In general, we can say that because many companies are restructuring their HR function, we may be witnessing the beginning of a mass migration. On the other hand, not everyone is following the same model. This is where the management philosophy and corporate culture come into play. While many trends are strong, there are notable exceptions when the apparent objective business value is overridden by management's subjective philosophies and sense of obligation to employees.

While business people act as though logic and objectivity are the source of decisions, facts do not support that logic and objectivity. In each case studied there is clearly as much subjectivity as objectivity beneath the surface. This is not necessarily bad. A totally impersonal approach would not yield structures and processes that are humanistic as well as efficient. Human beings, with all their idiosyncrasies and personal needs, cannot function in a completely antiseptic environment. Herein lies the prime lesson for those who restructure.

Prime Restructuring Lesson

"Why" and "how" are as important as "what".

When looking into what others did, the key question should be, Why did they do what they did? "Why" and "how" are as important as "what". Every organization is a unique combination of stakeholders, competitors, and market position factors. Therefore, a decision to restructure a department and centralize or decentralize a practice means nothing until we understand the reasons. We need to know something about the following factors before we choose to adopt or reject their decision:

- Market pressures impacting the company
- Financial status
- Strategic initiatives
- Corporate culture
- Management's philosophy, including the personalities of the key executives

The point is that what seemingly worked well for one organization no matter how well known or how successful is not a predictor of what will work well for another organization. The experience of others is useful information as long as the forces behind the decisions are known.

Driving Principles for Restructuring HR

Linking staff activities with strategic initiatives and business operations is fundamental to success.

Three overriding principles appear to drive the current restructuring programs. They are:

1. Linking staff activities with strategic initiatives and business operations.
2. Reestablishing control sites between line and staff with shared services, centralized expert centers, and outsourcing as possible delivery points.
3. Repositioning the staff and line relationships for the long term.

Likewise, the restructuring activities and decisions in this report fall into four broad categories. They are:

1. Structure and operations. In most cases, the move to centralize or decentralize any activity is driven by corporate strategy. Basically, there is a

strong tendency to remove most nonstrategic, noncustomer-focused work from the operation. Centralizing in a shared service unit, outsourcing, or eliminating functions are currently popular strategies. In general, corporate staffs are getting smaller because of line unit reassignment, reductions in force and function transfers either to a centralized expert center or an outside vendor.

HR staff and budget. Almost without exception, the human resources function is being reduced and/or is providing services to a larger number of employees with a smaller HR staff. Budgets have dropped about 20 percent since 1990, and staff sizes have been reduced by 10 to 20 percent or more. In 1990 the typical HR budget was near 1 percent of the operating expense of the company. In 1996 it was 0.8 percent. Likewise, the average HR staff to employee ratio dropped from 1:80 to 1:100 or more. This does not mean that companies are abandoning employee services. On the contrary, some line services are expanding in most large companies. However, the HR staff is no longer the primary delivery vehicle of those services.

Technological applications. HR is being increasingly automated. HR information systems are under review in over 60 percent of the major companies studied. Electronic applicant tracking systems are now commonplace. Automated employee response centers and hot lines are leading employees directly to internal or external service providers. Wherever possible, management is replacing people with machines. This is also changing the role of HR staff from direct providers to brokers of services and information.

Control and decision making. As structures change, controls change. Line management is gaining more control over some previously held HR services. Corporate HR is holding onto the policy and design reins

principally for pay and benefits. However, decisions about training needs are definitely shifting towards line control. Staffing is being split with the high volume transaction work being sent to centers and the hiring decision making moving toward line management.

Overall, there is a strong focus outside the HR department. Much attention is being paid to changing organizational culture and to customer requirements. This is a strategic organizational approach. The programs, skills, and perspectives that were the foundation for companies in the 1980s and early 1990s are not what's required today. Leading companies are reshaping their human resources departments to meet the needs of this new organization.

Key Findings

1. *The Process of Restructuring HR*

Change Reasons

Twenty-three companies reported at least four major reasons or drivers for their restructuring efforts. Over 50 percent of the participants indicated more than two reasons as equal in terms of importance for restructuring human resources. Overall, the three most important drivers that stood above the rest were improving service, reducing cost, and the HR director's vision of what the role and contribution of human resources should be.

There was a marked difference in the end result of the process when the driver of change was the vision of the HR director versus when it was simply to reduce cost. In the latter case, the approach became a true restructuring rather than a cost reduction program. The end product was most often a very nontraditional form of HR department.

Time Requirements

The time required or projected for restructuring the HR function varied greatly. The range was from 3 to 120 months, with the average being 22.6 months. The key was not necessarily the length of time to complete the process, but the magnitude of the effort and the fact that it had to be a continuous process. As the focus and market conditions of business change, so must the focus and customer services of human resources. We do see that the most recent restructuring programs are projecting longer completion times. This appears to be the result of a trend toward broader-based, more complex restructurings and a shift in HR focus to a business- and customer-oriented environment.

Best Practices: Benchmarking

This study found that 73 percent of participating companies conducted benchmarking prior to beginning restructuring efforts. Benchmarking can be a practical tool. It is widely used by many companies large and small, whether restructuring or not. Over 75 percent of participants performed some type of benchmarking on a regular basis.

Our participants reported several key lessons learned that influenced the approach to restructuring. Two of these are:

1. The need for and examples of new HR department structure, role, and contribution.
2. The importance of maintaining a customer service orientation, matching HR activities and services to the customer needs and desires.

From this study, we also see that HR is increasing its focus on the bottom line and on global issues. Clients report benchmarking the value-added areas of Return on Investment, Return on Equity, Revenue per Employee, HR investment and costs, plus global culture and staffing concerns. HR is beginning to view itself as a contributor to the operating objectives of the company, domestic and global.

The Role of External Consultants

This study shows 42 percent of our participants calling on the skills and knowledge of either private consulting firms or individuals from academia. However, the overwhelming trend was to use consultants from private firms. The primary reason to use consultants is to leverage knowledge and experience into quicker, better results. Since 88 percent of the companies report restructuring as a cost reduction effort, budget restraints could well have been the reason for not using more consultants.

2. The New Human Resources Organization

Human Capital Management (HCM)

This study shows a strong trend towards a new, nontraditional form of human resources department.

The human resources function takes on many forms during and after a restructuring process. This study shows a strong trend towards a new, nontraditional form of human resources department. It is one that moves beyond simply being a service provider to one that is a strategic partner and contributor to corporate goals. The term we use to describe this new HR organization is *Human Capital Management*. In the new HCM function, everything centers around improved performance. Forty-two percent of participants in this study have developed an HCM organization and 23 percent were moving to the HCM model.

Functions and Titles

The traditional responsibilities of human resources are changing and, in some cases, diminishing drastically. For example, we see only 30 percent

of participants retaining the standard HR staffing function. This area is being outsourced, delegated to line departments or divisions, or being moved to a central shared service function.

The compensation and benefits departments are more likely to be retained by human resources, with over 65 percent reporting this trend. The dynamics and evolution of strategic compensation programs are apparently a factor in retaining the compensation function. What we see in benefits, however, is a trend to outsource the transactional activities and retain the planning, strategy, and management of the function.

The training area is also seeing dramatic changes. Only 27 percent of companies reported retaining this area as is. The future role of HR in providing training to the organization is uncertain. Companies are moving this function to various providers, both internal and external, but mainly out of HR.

The new HCM organizations incorporate many new types of functions, responsibilities, and job titles into their structure. All are designed to be in sync with the business needs and goals of the organization. What we see are business partners and consultants instead of HR specialists, resource managers instead of HR department managers, productivity management instead of policy management, departments committed to planning instead of process activities. The HCM leaders use all resources and options. It is not business as usual for HR.

Structure and Operations

In addition to changing the role and responsibilities of the HR staff, we also see a definite change and movement in the control of HR services. Many new methods of providing employee services are emerging.

Employee Response Centers. The trend to centralize processes and systems as a methodology for responding to employee questions continues. Eighty-one percent indicated the use of response centers. The types of inquiries most commonly handled by response centers dealt with benefits policy and pay questions. Fifty-two percent of those companies with a response center indicated three or more areas handled by the center.

Centralized Training. In addition to the centralization of employee response centers, we also see a move toward centralized training as well. This is accomplished via "corporate universities" or telecommunication networks. Thirty-two percent of participants reported having a corporate

university and 63 percent utilized some form of a telecommunications network for training.

Shared Service Functions. The move to centralize or combine services for better utilization of staff or equipment is resulting in the establishment of administrative transaction service centers and centers of expertise. This study shows over 77 percent of our participants using a transaction center for one or more human resources activities and 65 percent implementing a center of expertise. Transaction service centers absorb routine HR administrative tasks and centers of expertise offer a centralized form of internal consulting. Both of these services allow HR to provide better service while meeting the changing needs of their organization.

Staffing the HR Function: New Trends

The composition of human resources staff is changing in organizations. There is definite scaling down, but not all HR professionals are seeing their domain shrink. What we see is a new workforce one that is reskilling to meet new customer demands. New reporting relationships are evolving as responsibilities are delegated, decentralized, and outsourced.

Transaction service centers coupled with technological advancements are affecting the HR administrative staff. Over 74 percent of participants had fewer nonexempt staff than their exempt professional staff. The average reported was 36 percent administrative versus 63 percent professional.

Along with the move to alter the numbers of administrative and professional staff, there is also a trend to increase the number of total employees serviced per HR employee. Our participants reported that five years ago, their average was 1:60. They reported a current average of 1:90, with the future showing an increase to over 1:100. We also see a decrease in the levels of HR management from the chief HR executive to front line HR service delivery. Participants reported a maximum range of five levels with the average just under four levels.

Restructuring's Effect on the Traditional HR Function

Along with the restructuring process itself, we see many changes occurring within traditional HR staff functions and responsibilities. The benefits area is being outsourced or moved to employee response centers or transaction centers. The staffing function is being delegated to line manage-

ment or field business units. Temporary agencies are now on site in larger organizations, thereby, removing company responsibility.

The training function is seeing movement out of HR. Fifty-six percent of responding participants indicated that they were either purchasing externally or having their training programs designed by external sources. Forty-six percent reported that training was delivered by external sources as well. Clearly, companies are using the expertise of outside consultants and computerized training programs to provide skills to their employees. Cost appears to be the fundamental reason for this shift, but only five participants reported measuring training's return on investment. Much work needs to be done by human resources in this area.

3. The Financial Component: Linking HR to the Business

Restructuring's Effect on the HR Budget

Sixty-one percent of participants reported seeing a reduction in their HR budget since restructuring even if the reason for changing the structure was not to reduce costs. Decreases ranged from 10 percent to 90 percent, with the average being 35 percent. The primary reasons for the decrease were decentralization to divisions and delegation to line management.

The Shifting of HR Responsibilities

The study shows a strong inclination to decentralize or delegate some aspect of human resources, with movement to either line management, strategic business units, divisional HR reps, or to other departments. Fifty-four percent of participants reported movement of at least one HR function. Forty-two percent were moving staffing; 36 percent, training; and 29 percent, employee relations. The primary reason for this shift is to improve service by putting the task closer to the customer (line).

Outsourcing is also receiving continued attention. All participating companies were planning to or had already outsourced some HR function. The benefits and training areas were the two most frequently outsourced functions. The main reason for this movement is to reduce cost. Companies found that administrative, repetitive tasks are often performed in a more cost-effective manner by external sources.

Reassignment of the HR Staff

Along with the movement of tasks or functions, 46 percent of responding companies reported a change or redistribution of their HR staff. The highest degree of change was seen in the decrease or elimination of the corporate HR staff, with 92 percent of participants indicating reassignment. Seventy-three percent showed a decrease in corporate human resources. An almost equal shift is seen in field SBUs, with 91 percent of companies reporting a change in staff numbers. The trend is to increase the field staff with 64 percent of participants showing this inclination.

Tangible Benefits of Restructuring

Fifty-eight percent of the companies reported tangible, quantifiable benefits from their restructuring program. Cost reductions ranged from 10 to 80 percent and 34 percent reported, a service improvement of 80 to 100 percent! It is clear that restructuring around the corporation's business imperatives can and does positively affect the service HR provides.

Measures: Evaluation of Success

As more companies restructure and reorganize the HR function, it is increasingly important that they measure success and results. This survey includes four areas of measurement: cost, quality, efficiency, and customer satisfaction. Our respondents indicated cost and quality as the top two measures.

4. How the New HR Business Model Affects Competitive Advantage

Future Human Asset Issues

When asked, "What are the human asset issues that you believe will have potentially the greatest positive or negative effect on your company's competitive ability between now and the year 2000?", our participants cited four major issues:

- Employee development
- Global implications

Leadership

Attraction and retention

We also see new workforce needs emerging as future organizational concerns. Other issues surfacing revolve around diversity, managing change, new "social and psychological contracts," instilling a disciplined regard for principles and values, and creating a learning environment. The change in organizational culture is creating new and diverse requirements for human resources.

IV Success Factors

Planning is the most frequently cited of all success factors a business focus is equally important.

Nearly all companies contacted identified several factors central to the success of their restructuring projects. Although some factors were cited more than others, it is evident that success depended on an interaction of a few key actions. As one would expect with a project as complex as functional restructuring, it is not a simple, one-dimensional task. In descending order of frequency mentioned are the factors that companies claim are essential for an effective transformation program: planning, business focus, communication, teamwork, commitment, and benchmarking.

The Six Leading Indicators for Successful Restructuring

1. *Planning*

Planning is the dominant feature and the clear prerequisite of successful restructuring programs. It is the most frequently cited of all success factors and is most often identified as the key or principal success factor. An effective plan includes the following:

- A clear strategy
- A context (business reason) for the change

- The ability to articulate the urgent business need for change to those affected
- An explicit statement of goals, objectives, and performance targets
- A plan model in which to embed the subsequent actions
- A clear understanding of the impact that restructuring will have on the organization
- A phasing in of the changes and plans for transition
- A design for an assessment method for evaluating outcomes

Commitment

Along with a systematic plan comes commitment. Planning requires support from the top (which will be covered later). It also calls for an investment of resources, including people, often technology, facilities, and materials. The commitment to fund this is a critical early step in the plan.

Pacing

Some participating companies felt that attending to systems, structure, and people changes concurrently was too much to manage simultaneously. They suggested that a phased approach overlapping people, process, and system change was more effective and less stressful. They started with a communication plan that prepared the employees for restructuring. Then, they moved toward dealing with process and system changes in a natural progression dictated by the nature of the redesign.

It is necessary to allow time for changes to be absorbed mentally and emotionally. Every organization has its own rhythm; it can only move so far, so fast. Accelerating the process beyond the organization's ability to deal with the stress of change inhibits internalization of the new design.

Restructuring is a current euphemism for planned change. Experience going back several decades demonstrates that after something has undergone change, the new system must be solidified before moving on. The traditional mantra is: "unfreezechangefreeze." While it may appear that the new design is in place, a look under the hood often shows that the change stops just below the surface. New processes are often backed up by the old processes, because people have not had time to develop confidence in the new way. The accumulation of such redundancies ultimately causes the new design to fail. As we have seen over the past fifteen years, about two-thirds of major change programs, by whatever name

they carry, have failed. Lack of a planned, measured procedure is one of the principal reasons.

2. Business Focus

An equally important point to planning is having a clear and thorough knowledge and understanding of the business. This is actually an antecedent of planning. The human resources director is increasingly charged with aligning the function with the business. While this should be an automatic assumption, it is not always the case. Today, the entire professional human resources staff must know the strategy of business and the needs of all levels within an enterprise. It doesn't hurt to communicate the strategy to the administrative support personnel as well.

Included in the knowledge of business is an understanding of customers and marketplaces. This is the contextual environment driving the change. HR's strategy and goals are dependent on knowing the business plan and initiatives that are derived from markets and customers. Our experience has been that this is a common failing of staff departments. Incomplete or misunderstood views of corporate strategy and initiatives are often the starting point for a suboptimized restructuring that has to be redone within a year or two.

Customer Requirements

Finally recognized by many firms, the start of all decisions must be at the feet of the customer. The value chain begins with customer needs, not with process improvement. After identifying the values demanded by the customers, management can then work backward through the organization to locate and redesign the processes and systems that have the most to do with creating value. Tying human resources strategy to business requires the following:

- Understanding the company vision, values, and mission
- Developing the plan that embeds itself in those forces
- Implementing a value-adding plan as defined by the customer

Keeping internal and external customers' needs at the forefront of change helps avoid the tendency to rearrange processes that do not add value. In addition, it prevents the human resources staff from moving too quickly

to an internal focus. Successful restructurings have involved customers early on in the process.

3. Communication

Communication is so pervasive a human process that it is often overlooked or attended to after everything else has been cast in concrete. Effective programs are all dependent on extensive communications efforts. Employees, functional managers, and often outsiders such as vendors or community services need to be included in the communication process.

Earlier SI research identified massive, continuous communication programs as the hallmark of the most effective companies. Participants in this latest SI study reported the same practice. Open, frank communication of relevant information lessens fear and stress. It implies trust, which in turn generates commitment and loyalty. Finally, it provides people with the tool necessary to understand the rationale for the change, and to carry out its implementation.

4. Teamwork

Involvement of people as team members was cited by many participating companies as a key success factor. Large-scale change requires involvement. Nothing happens in a vacuum. Everything is connected. Many people are affected by a significant restructuring of human resources services. The views of people outside the function are valuable inputs to the plan and the conduct of a redesign. Effective programs typically enlist the support of others outside of HR. Collaboration pays off in data gathering, assessment, and plan making. It is shown to create a shared sense of ownership, as well as support during implementation.

5. Commitment

It is no surprise that top management support is on the list of success factors. We know that all programs affecting a significant part of the enterprise require support from the top. First, top executives must buy into the plan and then agree to fund it. Second, and most important, they must commit to active, visible, personal involvement. When they don't participate, the evidence shows little actual change takes place.

Project Leadership

Along with executive support must come strong project management and leadership skill. Participants described the need for a project leader/manager who is:

- Respected by others inside and outside the function
- Committed to the rationale for restructuring
- A creative and innovative thinker
- Hard-driving to carry the project through the tough times
- Influential with others
- A good people manager

Power Shift

Restructuring naturally shifts power around the organization. Some people will resist losing their power or having their territories invaded. While the executive level can mandate compliance, it is up to the project leader to make certain the change is real. Resistance should be anticipated, acknowledged, and planned for.

6. *Benchmarking*

Benchmarking is seldom listed as a success factor. However, since nearly three out of four (73 percent) companies engaged in benchmarking before restructuring efforts begin, this type of research clearly played a part. Useful ideas, cautions, and suggested methods can come from a targeted benchmarking effort, when both performance metrics and practices are studied.

Caution

Benchmarking the practices of others can be a dangerous process if certain issues are ignored. Most important, and most often missed, is knowing the state of the benchmark partner company at the time that a process change was initiated. Where was the organization on its business cycle, ascending or descending? What was the rationale behind the change and

the way the process was designed? One must look behind the visible process into the antecedents that drove it.

Metrics

Many companies adopt a set of performance metrics to use for three purposes:

1. Monitor their operations
2. Compare themselves to others
3. Set performance targets

The most common metrics are as follows:

- Revenue per employee
- Human value added
- Pay as a percent of revenue
- Benefit costs as a percent of revenue
- Total compensation as a percent of expense
- Employee health-care costs
- Separation rates
- Turnover cost
- Cost per hire
- HR department expense as a percent of expense

General Tips

Several pointers for success can be drawn from this research:

Focus on the ultimate customer. Be certain that you are improving those processes that add value for your customers and ultimately lead to competitive advantage for the enterprise.

Establish a change management plan. Strive for flawless execution not only for efficiency, but to show competence and to gain the respect of outsiders (employees and managers).

Schedule a tight timeframe and move quickly. Plan for and achieve short-term wins to demonstrate early success and generate momentum.

Pick the low-hanging fruit first. When you establish your change management plan, be sure to go for a few easy victories to build confidence within teams.

Be flexible. Plans seldom work exactly as drawn. Be prepared to reorganize or shift as you go.

Watch the details closely. On the critical path items, manage day-by-day and week-by-week.

Don't be constrained by what has been. If the business reason is sufficient to mandate a structural change, move forcefully to locate and introduce better methods.

V

The Process of Restructuring HR

Change Reasons

Reasons given for restructuring human resources departments are many, as are the levels of priority assigned to them. Restructuring goes far beyond eliminating jobs and expenses; it also creates new organizational forms. The ideal is to design a more responsive function, an "internal business" that can better address the competitive organizational pressures of today and tomorrow. In recent years some restructuring evolved out of desperation in crisis conditions.

The survey questionnaire that launched our research into restructuring listed typical examples of change drivers. In some cases, our participants indicated other reasons for change. Priority levels from 1 (High) to 5 (Low) were assigned by the participants. The reasons listed on the questionnaire were:

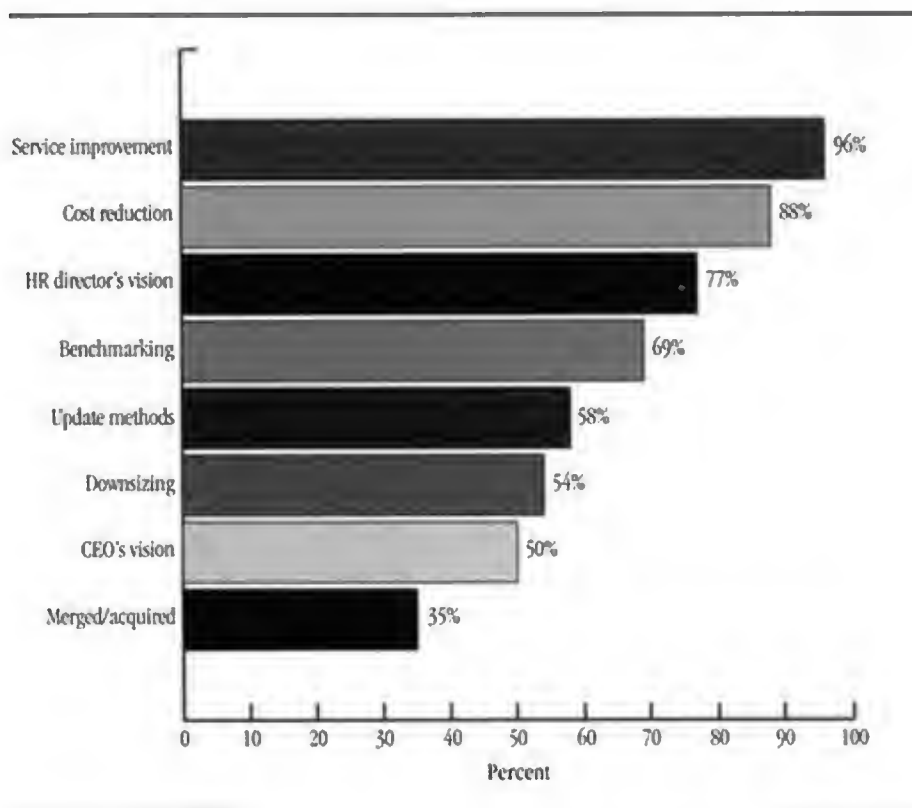
- Service improvement
- Cost reduction
- Updating methods
- Downsizing
- CEO's vision of HR

HR director's vision of HR
 Merged/acquired
 Benchmarking (seeing others do it)
 Other

Twenty-three companies in the core research project reported at least four major reasons or drivers for restructuring the human resources function. Figure 1 presents them by frequency of mention. Over 50 percent of the participants indicated more than two reasons as equal in importance for restructuring. Overall, the three most important drivers clearly stood above the rest: improving service, reducing cost, and the HR director's vision.

1. *Service Improvement.* Improved service stands out as the underlying rationale in nearly every case. Rather than simply changing a structure or process, effective project managers involve their customers on the front end through needs analysis, as well as during the project in reviewing and assisting in implementation. The competitiveness of business, in addition

Figure 1
 Reasons for restructuring the HR function



to the "customer-first corporate imperative," forces a strong focus on the customer. This requires HR to maintain that same focus and align itself accordingly.

There is a marked difference in the end result when the driver of the change is the vision of the HR director.

2. *HR director's vision.* There is a marked difference in the end result of the process when the driver of the change is the vision of the HR director typically opts for new organizational forms. The approach is more a true restructuring than a cost reduction program, and the end product is often a very nontraditional form. Territorial and power issues are set aside in favor of the best service solution. Responsibilities previously held by HR staff are often transferred out to line management, outsourced, or moved to central shared service centers. In this way HR becomes more than aligned with the business it becomes integrated with it. The successful human resources departments are learning to speak the language of business. In all cases where the HR director drove a new vision around customer needs, the HR director reported directly to the CEO.

3. *Cost reduction.* When the driver is simply to reduce cost, it is usually a reactive response to some pressure. The end result is often a smaller, yet very traditional human resources department structure. It is characterized by decreased headcount and sometimes a reduction in services, rather than a new form for delivering HR services. In some cases, technology is introduced to replace people as delivery support.

From the highest to lowest priority level, the top three reasons for change listed above were also given the highest priority rating. Over half of the participants indicated more than two reasons as priority for change for them. By priority level, we found the following:

Highest (1)

Cost reduction

Service improvement

HR director's vision

Second (2)

HR director's vision

Service improvement

CEO's vision of HR/update methods

Third (34)

Benchmarking

Cost reduction/CEO's vision of HR

Service improvement

Lowest (5)
Merged/acquired

When we look at the data by industry group, as shown in Figure 2, we see that in electronics companies, the primary driver of change was the HR director's vision. This was followed by striving to improve service and reduce cost. Certainly in this industry group we have many organizations that are new startups, technology driven, and faced with global competition. Innovation here is the trend, both in product line and culture.

In the health care group, the primary driver of change was to reduce the cost of HR services, followed closely by downsizing. True to form, the health care industry has taken some royal beatings in the last few years with severe cost containment programs, merging of services and facilities, HMOs, and DRGs. Again, when the change driver is a reactive move to lower costs, we see more downsizing of services and headcount, rather than designing a new methodology for the delivery of HR services.

The chemicals group also indicated cost reduction as its primary reason for change. This undoubtedly was the result of severe market price competition, both domestically and globally.

In the finance arena, the primary driver of change was improved service, followed by cost reduction, and updating methods. Given the move toward online banking and other electronic banking services, the customer service provided by human assets must be top notch, and their electronic systems need to be compatible.

No trends are seen by either company size or the length of time needed to complete the restructuring processimproved service, cost reduction

Figure 2
Primary restructuring reason by selected industry group

Industry	Primary Reason
Electronics	HR vision
Health care	Reduce costs
Chemicals	Reduce costs
Finance	Improve service

programs, and the HR director's vision remain the top three restructuring reasons.

In summary, when we look at the "new" nontraditional form of human resources structures reported, the trend is toward redesigning processes around customer needs rather than simply redesigning a process. The goal is to reshape the human resources department and align it with the business needs of the organization. By definition, this should make HR services more relevant and value adding. Cost reduction is almost always a fallout of restructuring regardless of whether it was the primary reason for redesigning the human resources function. As mentioned previously, when the driver of change is the vision of the HR director, the end result is a totally new organizational form, an organization designed to align with the business and provide the skills and services necessary for the organization to succeed and grow. Successful human resources departments are learning to speak the language of business.

Time Requirements

The time required varies widelykey is the extent of the restructuring effort.

The time required or projected for restructuring the HR function varies widely. Figure 3 shows the range to be from 3 to 120 months with the average being 22.6 months. Three companies reported the process as being ongoing and continuous with no end date currently projected. Omitting the 120-month figure, the high is 68 months, the average 18 months, and midpoint 17 months. However, the key here is not the length of time to complete the process, but the extent of the restructuring and the fact that it must be a continuous process. As the needs of business change so must the focus of Human Resources.

These are time frames that some of our participants are experiencing:

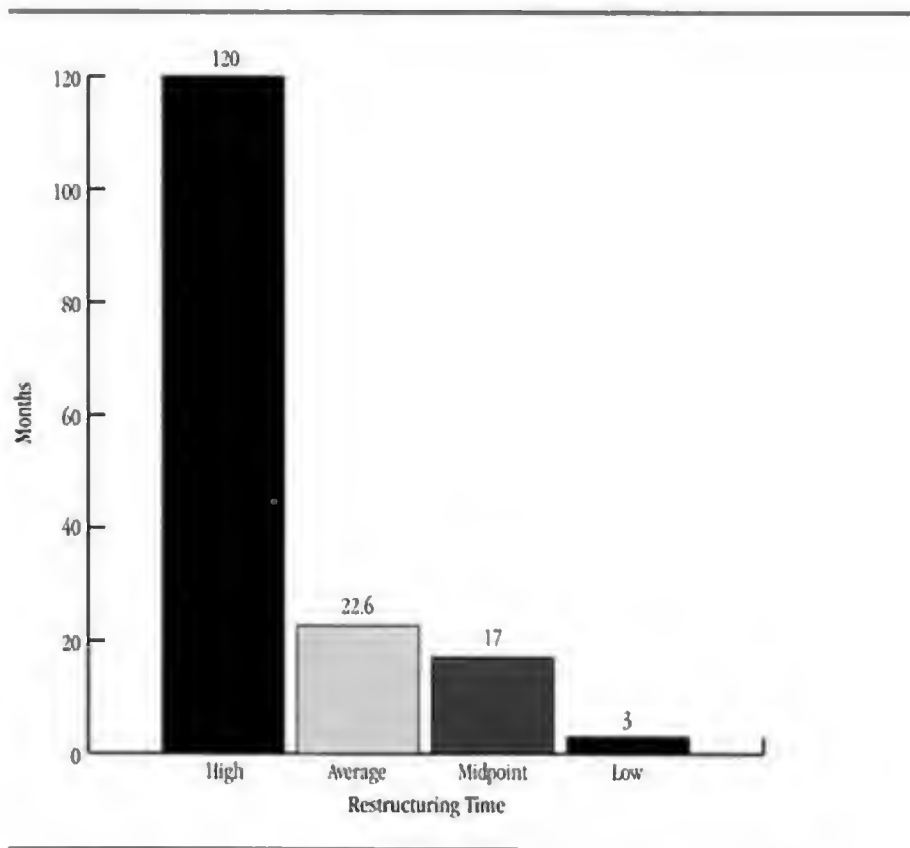
Six companies began the restructuring process during 1990-1993; three started in 1994; eight began in 1995; six in 1996; one company project started in 1997

Fifteen companies reported that they are still in process; two companies completed restructuring in 1994; one company completed in 1995; three in 1996; and, eight companies project completion in 1997.

Two companies had, or would be experiencing, a nine- and ten-year time frame for their restructuring program.

An interesting difference is found in looking at the data for 1995 and 1996. Of the eight companies that began restructuring in 1995, the average

Figure 3
Restructuring time by month



completion time was projected at eighteen months. For the companies that began the process in 1996, the projected completion time was two years. Could this increase in time allocation be the result of the change in the business focus? In 1995 companies were still primarily interested in reducing operating expense as opposed to the current focus towards a change in organizational culture and customer service.

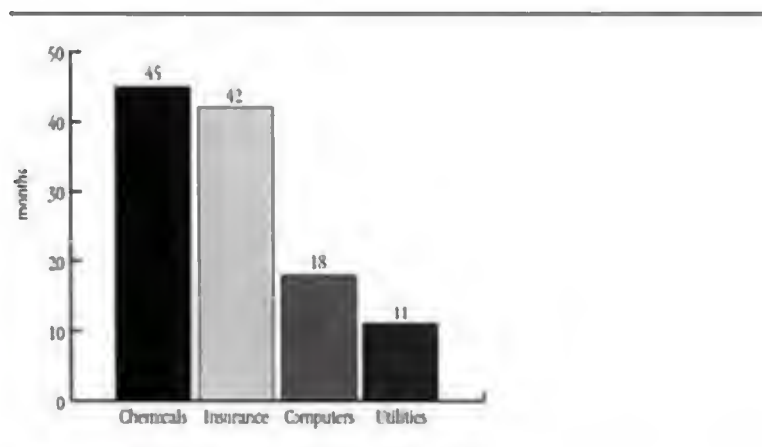
Recent discussions with leading HR practitioners suggest that the restructuring process is becoming more complex due to its scope. Beyond functional process redesign are the larger HR role issues found in corporate culture and structure change, as well as in redefining employee job accountability and career development. Is the change process lasting longer due to a total redesign of the systems and processes that HR performs? Is the increasing introduction of technology contributing to the risk and

lengthening the process? In short, restructuring today is a complicated undertaking.

Figure 4 shows the length of restructuring time by industry group. The only finding we can draw from this data is that typically the chemical and insurance industry groups have larger numbers of employees and management levels. Restructuring to meet the needs for such large and multitiered organizations would understandably require a greater length of time. No other differences were visible by company size (number of employees). However, an interesting comparison can be made between the average number of employees for all participants responding to questions regarding their start and end date for restructuring and their completion times: The average number of employees was 24,500 and the average reported length of time for restructuring was 22.6 months. This comes very close to averaging one month per thousand employees. Given the sample size and data submitted, we cannot draw a direct correlation between these two parameters. In future studies, however, we may be able to see a relationship.

A more accurate distinction to be drawn from the data on length of time is that the time required for restructuring is determined by the scope and complexity of the restructuring process itself and the business needs of the organization. There is no algorithm to provide an easy answer.

Figure 4
Restructuring time by industry



Best Practices Used

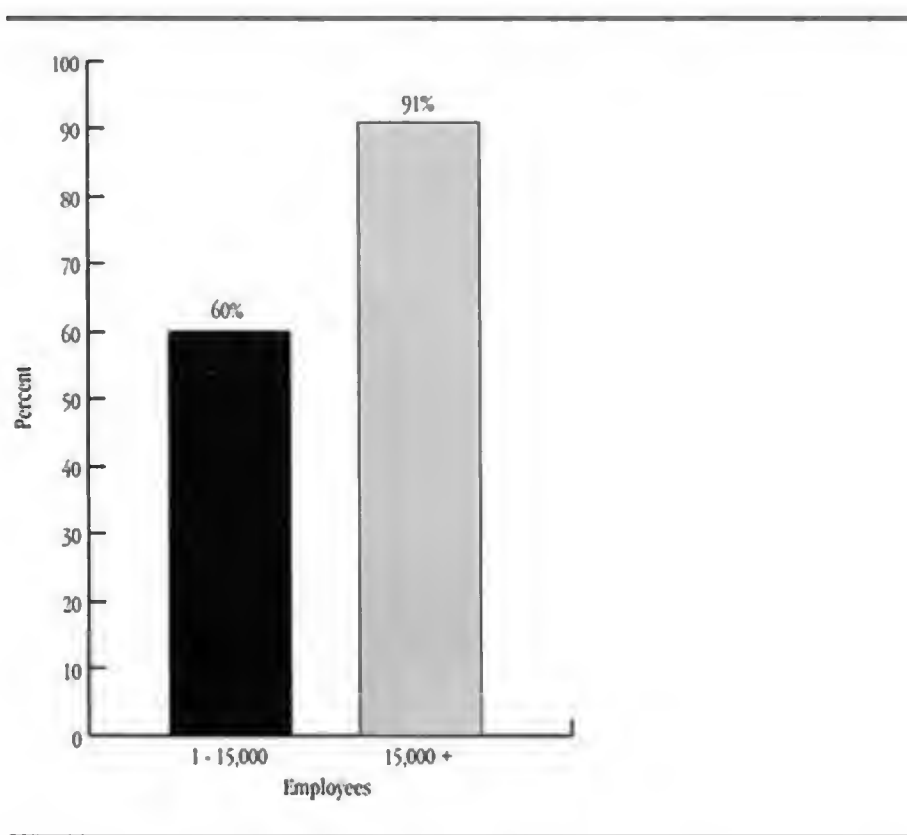
The Current Focus

Seventy-three percent of participating companies used benchmarking as part of their process.

Benchmarking is a useful and widespread practice for many whether they are restructuring or not. Notwithstanding the fact that some benchmarking projects are little more than industrial tourism, observing how other companies perform is an important element in upgrading one's human resources function.

This study found that 73 percent of participating companies conducted metrics or practices benchmarking prior to beginning their restructuring effort. All of the participating computer, finance, and health-care organizations used benchmarking as part of their process. Figure 5 shows that process 91 percent of the participating organizations with more than 15,000 employees embarked on benchmarking prior to restructuring; 60 percent of companies with fewer than 15,000 employees report benchmarking before restructuring. Since larger organizations typically have a correspondingly greater number of HR staff, this may be a function of staff available

Figure 5
Use of benchmarking before restructuring



for more sophisticated HR processes. However, there are many benchmarking methods and references available to HR organizations today that do not require the extensive amount of staff time and still provide them with much needed decision-making information.

A targeted benchmarking effort is important. However, the knowledge gained from the process and how it is applied is key to successful implementation. Our respondents reported learning the following from benchmarking all items influenced their approach to HR restructuring:

- The need for and examples of new HR department structure
- How to maintain a customer service orientation match activities to customer needs and desires
- The importance of baseline data and measures
- The importance of focusing on bench strength: workforce and succession planning
- The importance of separating administrative processing from professional expertise

All participating computer and finance organizations performed annual benchmarking projects. In addition, health-care organizations used benchmarking prior to restructuring. Most benchmark projects mentioned covered these major topics:

- HR functions
- Compensation
- Benefits
- Staffing
- HR headcount and ratios
- HR staff distribution

From this study, we see that HR is increasing its focus and concern on the bottom line and thus is beginning to benchmark the following value-adding areas:

- Return on investment
- Return on equity
- Revenue per employee
- HR investment

- HR costs
- Payroll expense
- Outsource versus inside costs
- Process quality
- Policy management
- Service center productivity and costs
- Employee satisfaction
- Employee and leadership development

As HR comes in closer contact with customers and the marketplace, it is in a better position to view itself from the standpoint of its contribution to the operating objectives of the company.

Future Areas of Concern

Global staffing issues are cited for future benchmarking efforts.

In addition to continuing to benchmark the standard human resources functions of compensation, benefits, and staffing, respondents also indicated that they will benchmark the following areas and topics in the future:

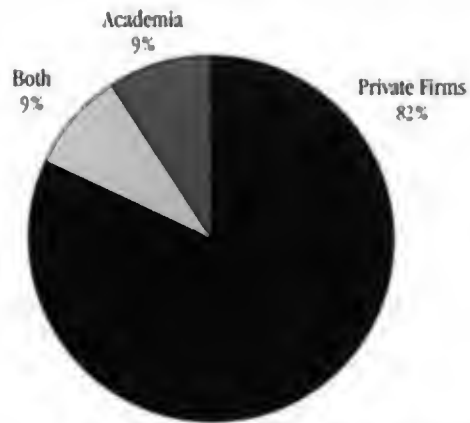
- Shared services
- Global staffing issues
- Welfare reform
- Knowledge-based organizations
- Management development and planning
- HR related software programs

These topics tie in with the future human asset management issues cited by the participants in this study and previous SI research.

The Role of External Consultants

When venturing into the uncharted territory of redesigning human resources, external consultants are frequently called to assist and advise organizations. The core study showed that eleven companies, 42 percent,

Figure 6
Preferred source for external consultants



Forty-two percent called on the skills and knowledge of either private consulting firms or individuals from academia.

brought in the skills and knowledge of either private consulting firms or individuals from academia. Of those eleven companies portrayed in Figure 6, the trend was to use private consulting firms, with 82 percent reporting that choice. This could well be the result of marketing efforts on the part of private firms. There are many highly skilled and qualified consultants from academia; however, they do not employ the amount of marketing that private consulting firms use. One organization used consultants from both groups and will do so again, if necessary. The primary reason for using consultants was to leverage their knowledge and experience into quicker, better results.

As far as calling in consultants to assist in future programs, 73 percent reported that they would use consultants again. The decrease from the 82 percent may be the result of not projecting further restructuring efforts, or simply that the HR director and staff believed that they had gained the knowledge necessary to continue on their own. Certainly the learning curve is significantly shortened with the use of this resource.

Given the fact that 88 percent of the companies report restructuring as a cost-driven exercise, budget constraints could well be the reason for not using more external consultants in the restructuring effort or not planning to use them in the future. We found this to be the case with several companies that did not use consultants initially.

No trends are seen by company size or completion time. Organizations with 4,000 to 200,000 employees used the services of consultants, and their restructuring completion times ranged from 5 months to 120 months. In reviewing the data by industry, only within the utilities group was there 100 percent usage of consultants.

VI

The New Human Resources Organization

Human Capital Management: What It Is and What It Looks Like

The new non-traditional human resources department is called Human Capital Management (HCM).

Human Capital Management (HCM) is a term we use to describe the new nontraditional human resources department. In some companies HR is moving beyond its role as "enforcer" and "service provider" to strategic partner in management and contributor to company bottom line. The human resources function takes on many forms during and after a restructuring process. The departments change as do number of employees, services provided, staff and management levels, and the CEO/HRO reporting relationship. In the new HCM function, everything centers around improved performance. This section is designed to give the readers a glimpse of what some organizations are doing in these areas and what the new organization looks like.

Forty-two percent of companies participating in this study had developed an HCM organization and an additional 23 percent had made moves toward the HCM model. Of those achieving the HCM structure, 73 percent indicated that the vision of the HR director was their primary driver for change. In those companies that have made partial gains in the same direction, 83 percent rated the HRO director's vision as a key factor. In the new model, the HR director's vision of HR, coupled with a desire to improve service both organizationally and departmentally, creates the form and role.

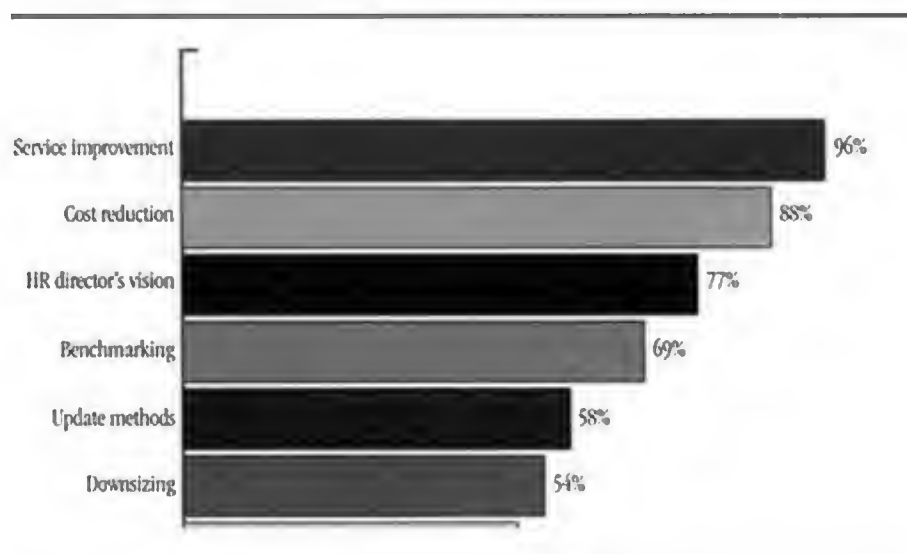
Nineteen percent of our participants gave no indication that the HR director's vision was a reason for restructuring. And again, where cost was the major driver for change, the resulting organization retained the traditional form except for some outsourcing and delegation of responsibilities. This was also true in those organizations that have made quick, reactive moves to change and whose completion time for restructuring was six months or less. In these cases, there was basically no change to the structure of the department other than centralizing some services and essentially downsizing the department (cutbacks).

Functions and Titles

Of the twenty-six companies participating in the core study, seventeen retained the traditional responsibilities and services provided by the Compensation and Benefits departments. Eleven companies retained Staffing; seven kept Training; five, Employee Relations; and four retained Organizational Development (see Figure 7).

The sensitivity and dynamics of paying employees apparently were factors in retaining the compensation function. In addition, there was a widespread trend toward linking employee pay to the success of the organization. Since this remains a challenge to most companies, new pay systems and programs are still experimental and control must be maintained. HR evidently wants to hold onto this function at least for the near term. However, what we see in benefits is a trend to outsource the transactional aspects and retain the planning, strategy, and management of the function.

Figure 7
Traditional HR functions being retained



The traditional responsibilities of human resources are diminishing dramatically, especially when we see that only 30 percent of participants are retaining the standard HR staffing structure. This area is being outsourced to agencies, delegated to the line departments or divisions, or moved to a shared service function.

Structure and Operations

The HCM organization incorporates many new types of job titles and functions in the HR structure.

The new types of HCM organization developed by our participants incorporate many new functions, responsibilities, and job titles in their structures. The HCM leaders use all resources and options. Creativity, resourcefulness, flexibility, innovation, and adaptability are becoming more important than just the ability to perform a specific job; however, all need to be in sync with the needs and goals of organizations. The list in Figure 8 shows some of the functions and titles now being incorporated under the human resources umbrella.

Figure 8
The HCM structure new functions and titles

Business consultants	Resource management
Corporate organizational consultants	Rewards & recognition
Diversity & diversity planning	Strategic & process planning
Field HR	Worldwide planning
Global HR	Outsourcing
Global organization & personnel	Transaction centers
HR business partners	Centers of expertise
HR councils	Employee response centers
HR planning & strategy	Corporate universities
People development	Shared services
Productivity management	

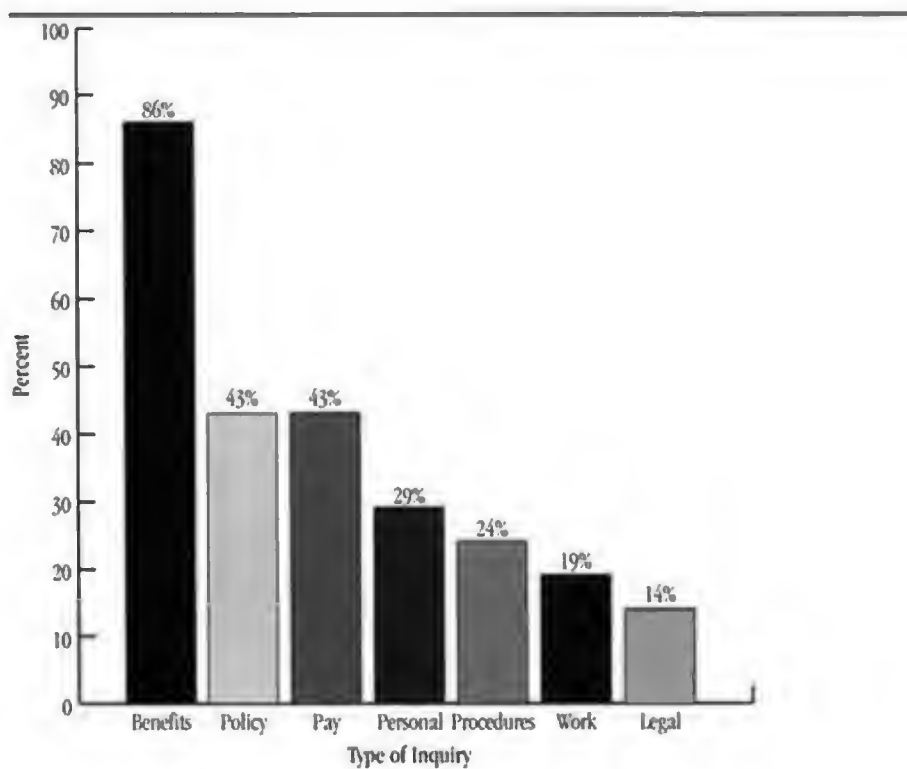
The alignment with corporate goals and strategy provides a valuable effect on company profitability. We find that in organizations where the HR director's vision was leading the way for achievement of the HCM structure, there was a positive effect on the company's bottom line. This is discussed in the section entitled "How the New Business Model Affects Competitive Advantage."

Employee Response Centers

The past few years have seen a move to centralize processes or systems as a methodology for responding to day-to-day employee questions. This study saw further movement in that direction with 81 percent of companies indicating use of a response center. Another company is in process for a 1998 startup, and one reported a planned expansion of their center.

All of the participating computer, financial, electronic, and utility companies indicated having a center, as do all participating organizations with 15,000 or more employees. Even in those organizations with fewer than 15,000 employees, 69 percent maintained an employee response center. Figure 9 shows the types of inquiries or transactions most commonly handled by response centers.

Figure 9
Employee response center inquiries



Additional issues listed were administrative transaction services, employee and labor relations hotline, outplacement assistance, employee assistance program (external), and corporate ombudsman.

Fifty-two percent of those companies with response centers indicated three or more areas handled by the center. Two computer companies stated that their center handles all of the listed issues. One-third of the participating companies indicated that their centers handled benefit issues only.

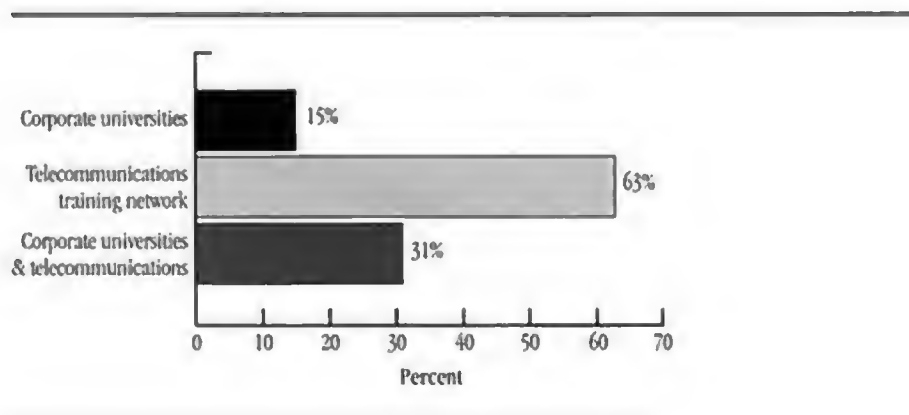
Centralized Training

In addition to instituting a central employee response center, we are seeing some activity toward centralizing training. Figure 10 shows the incidence of corporate universities and telecommunications networks. Thirty-one percent of participants reported having a corporate university, and one additional company was in the development process. Of these, only two companies reported having on-site housing at their training location.

In those organizations with no corporate university, 63 percent utilized some form of a telecommunications network for training. Only 15 percent (four companies) had both a corporate university and used telecommunications networks for some aspect of training, and two of these were in the computer industry.

No relationships can be seen by company size. Companies with as few as 4,000 employees to as many as 200,000 reported these forces of central direction and control.

Figure 10
Centralized training delivery



Shared Service Functions

Transaction Centers. The move to centralize or combine services for better utilization of staff or equipment has also resulted in the establishment of administrative transaction centers. We say administrative because the primary function of transaction centers is to perform routine administrative tasks. This trend is quickly growing in number, as we see over 77 percent of our participants using a center of this type for one or more human resources activities.

Fifty-five percent reported having four functions serviced via a center. One organization reported that they will be launching national centers in large labor markets, then possibly going regional or even global. Another company reported having a service center that handled all their transactional activities. Ninety-one percent of the HCM organizations utilized the benefits of a transaction center.

The primary responsibilities being relocated to a transaction center are benefits-related.

The primary responsibilities being relocated to a transaction center are benefits-related, with almost two-thirds of the participants reporting this move. Given the highly transactional nature of benefits and the fact that centralization has proven to decrease the cost to manage, this is a logical and strategic move. In addition, the trend to centralize other administrative areas is gaining momentum. Figure 11 shows this trend by topic.

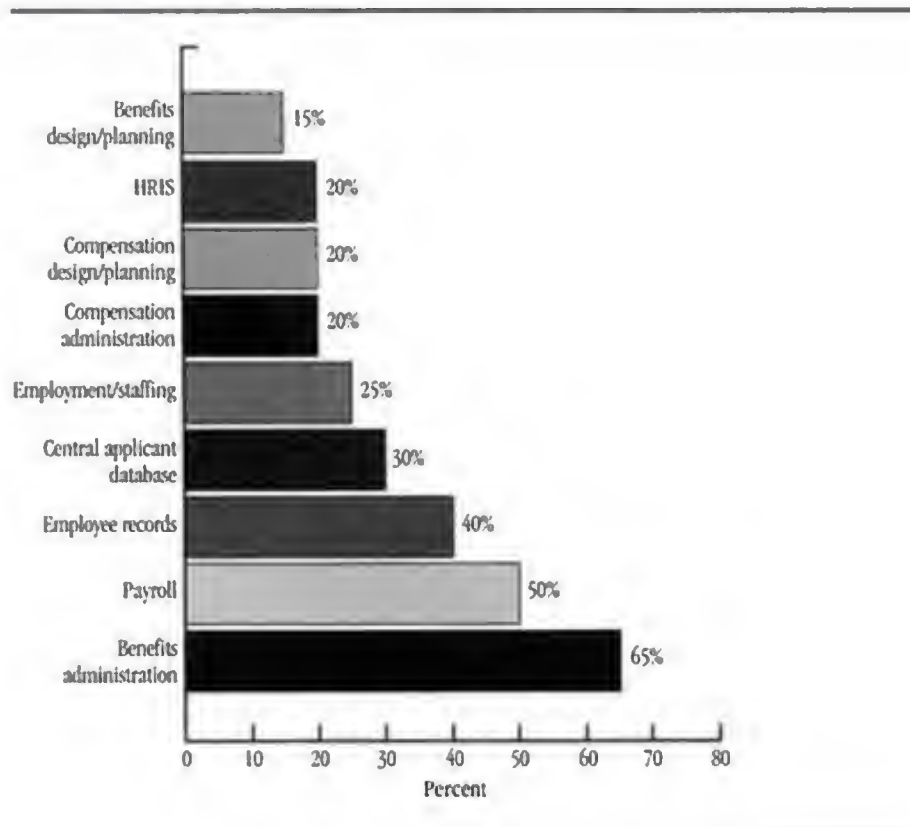
Other areas mentioned are staffing administration, training, training administration, HR development, health services, relocation, and policy design. There is no relationship between company size or industry group and establishing transaction centers.

Centers of Expertise. Centralization of services continues to be the trend with over 65 percent of the companies reporting implementation of a center of expertise as a centralized form of internal consulting. Companies that had a center reported that at least three areas of human asset management were included in the center.

Centralizing the organization's internal consultants, the HR professionals, usually provides the company with a much deeper level of expertise in critical functions. Ninety-one percent of the HCM organizations employed centers of expertise.

In today's fast-moving, high risk-high reward marketplace, companies are identifying functional issues in which they need to be on the leading edge. These might be anywhere along the continuum from highly

Figure 11
Transaction center services



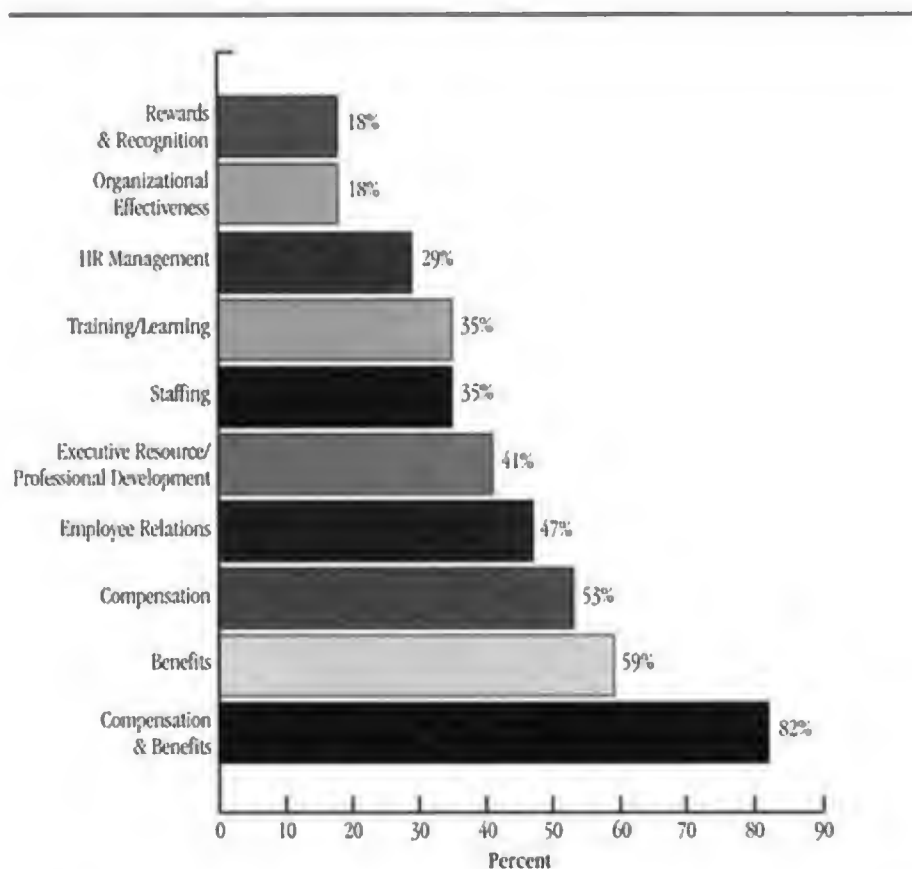
cost efficient to exceptionally innovative or leaders in customer service. Tracy and Wiersema¹ describe this as a focus on market discipline. Once the commitment is made to the strategic thrust, employee skill development, process management, compensation schemes, and other support systems must be aligned. This is where centers of expertise are established.

Over 65 percent of the companies reported implementation of a center of expertise.

In order of most frequent mention, Figure 12 shows the areas of functional expertise that are being placed in expert centers. Other areas mentioned include HR strategic planning, HRIS, succession planning, capability development, and resource and productivity management.

¹Michael Tracy & Fred Wiersema, *The Discipline of Market Leaders*, Reading, MA, Addison-Wesley, 1995.

Figure 12
Functions in centers of expertise



Note: In reference to the above functions, Organizational Effectiveness includes Organizational Development (OD), Total Quality Control (TQC), and Diversity; HR Management includes organizational consulting; Staffing includes College Relations; Employee Relations includes Labor Relations, Policy, and EEO/AA; Compensation & Benefits includes design, management, and planning.

Staffing the HR Function: New Trends

New reporting relationships are evolving as functions are delegated, decentralized, and outsourced.

The composition of the human resources staff in organizations is changing. There has been some scaling down, but not all HR professionals are seeing their demise. What they see is a new workforce that is reskilling to meet new customer demands. Additionally, there are new reporting relationships evolving as functions are delegated, decentralized, and outsourced.

The advent of centers of expertise and shared service centers has created opportunities for HR specialists to broaden their horizons, either by becoming generalists or further specializing and raising their level of expertise

in a particular human resources area. They are also broadening their capabilities by learning how to operate more independently as internal consultant services to compete with external service providers.

Delegating responsibilities to field human resources or to strategic business units drastically changes reporting relationships. No longer is the HR staff dealing with HR problems strictly from an HR professional's viewpoint. Now, they are reporting to plant managers or operations VPs. Survival in this environment requires three key skills:

1. Knowing the business processes of the units that they serve.
2. Learning to speak the technical and financial languages used in the company.
3. Understanding the strategic initiatives that the company is pursuing.

Administrative Versus Professional Staff

Transaction service centers coupled with technological enhancements are definitely affecting the HR administrative staff. There is a significant move to decrease the number of internal staff performing transactional activities. Over 74 percent of our participants claimed to have fewer nonexempt administrative staff than professional exempt personnel. Figure 13 shows the range was from a low of 10 percent administrative and 90 percent professionals to a high of 65 percent administrative and 35 percent professionals.

HCM organizations averaged 35 percent administrative and 65 percent professional staff. Both the low 10/90 ratio and the high 65/35 ratio were found in smaller size (< 5000 employees) companies. Sample Company A,

Figure 13
Distribution of staff between administrative and professional levels

Rank	Administrative	Professional
Low	10%	90%
Average	36%	63%
High	65%	35%
Mean	35%	65%

with the low 10/90 ratio, restructured essentially to improve service. This organization outsourced only one area, implemented a transaction center (to cover payroll, benefits), instituted an employee response center, and moved 20 percent of its staff to field SBUs. In addition, this company used outside consultants/trainers for 90 percent of its training activity, both the design and the delivery. The ratio of total HR staff to total employees went from 1:50 to 1:100. Company A also went through some merging and/or acquisition of another service company. This company appeared to be concentrating on providing skilled services via their high number of professional staff. To facilitate this, they eliminated the burden of time and staff for the transactional activities and day-to-day employee questions.

Company B, with the high 65/35 ratio, restructured due to the HR director's vision and, secondarily, to improve service. It outsourced three areas, maintaining a transaction center, a center of expertise, and an employee response center. In addition, it moved 25 percent of its HR staff to field SBUs. The training function was delegated to line management; in addition, 95 percent of the design and delivery of training was moved to outside consultants. The ratio of total HR staff to total employees went from 1:50 to 1:100 and a further move is planned to 1:200. The administrative/professional ratio of 65/35 was due to the extensive use of outside consultants. The few internal professional staff acted as brokers rather than personally delivering many services. Thus, when the goal of 1:200 is reached, the 65 percent administrative portion will be a relatively small number. The use of outside consultants appears to be responsible for this.

HR Staff to Total Employees

There is a clear tendency to increase the number of total employees serviced by each HR employee.

Along with the move to alter the numbers of administrative and professional human resources staff, there is also a clear tendency to increase the number of total employees serviced by each human resources employee. Shared services, delegating, and outsourcing all play a major role. By looking at the past (five years ago), present (now or after restructuring), and future (five years from now), this increased progression is visible. Figure 14 clearly illustrates the shift.

In contrast, the HCM organizations showed a past mean of 1:57, present mean of 1:85, and future mean of 1:145. It is apparent that a new structure has or is being designed to provide human resources services to a larger number of employees with a smaller HR staff.

Figure 14
Changing ratio of HR staff to total employees

Rank	Past	Present	Future
Low	1:40	1:40	1:60
Average	1:60	1:90	1:114
High	1:125	1:200	1:200
Mean	1:50	1:89	1:100

The survey included one outside high of 1:1000 that was omitted from the above calculations, because it was from a service industry with a human asset ratio that is atypical of most businesses.

HR Management Levels

In addition to observing the numbers change in staff levels and ratios within the HR organization, we can also see a decrease in the levels of management, from the chief HR executive to front line HR service delivery. This is a natural decline, given the trend over the past years for all organizations to move to flatter, leaner designs. Our participants indicated a maximum range of five levels of management from the chief HR officer to the first line administrative staff. The average was just under four levels. The HCM organizations averaged four levels as well. Only 21 percent of participants indicated five levels. In companies with 50,000 employees or more, this was the case.

CEO and HR Reporting Relationship

Seventy-seven percent show the top HR officer reporting directly to the CEO.

Seventy-seven percent of our participating companies showed the top human resources officer reporting directly to the CEO. Fifteen percent of the group reported to the CFO. In 92 percent of the cases in organizations with over 10,000 employees, the HRO reported to the CEO. In all but two of the HCM organizations, this was also true.

Restructuring's Effect on the Traditional HR Function

Along with the restructuring process, we see many changes occurring within traditional HR staff functions and responsibilities. It is not business as usual for HR, just as it is not business as usual for the organization. Increasing cultural change, technological advancement, domestic and international competition, customer orientation, and downsizing all played a key role in the transition. The benefits area is either being outsourced or handled by an employee response center and transaction centers. The staffing function is being delegated to line management or field SBUs. Many temporary staffing agencies are now on site in larger organizations, thereby removing company responsibility.

The training function is seeing movement out of the HR organization.

The training function is also seeing movement out of the HR organization. Fifty-six percent of responding participants indicated that they were either purchasing training externally or having their training programs *designed* by external sources (Figure 15). In response to the second part of our question on *delivery* of the programs, 46 percent of participants reported that they were delivered by external sources as well (see Figure 16).

In reviewing the data by company size, in companies with 15,000 or fewer employees, 77 percent reported purchasing training externally or having their programs designed by external sources, and 43 percent reported having them delivered by external sources also. The percentages for larger organizations those with 15,000 or more employees was somewhat

Figure 15
Training design

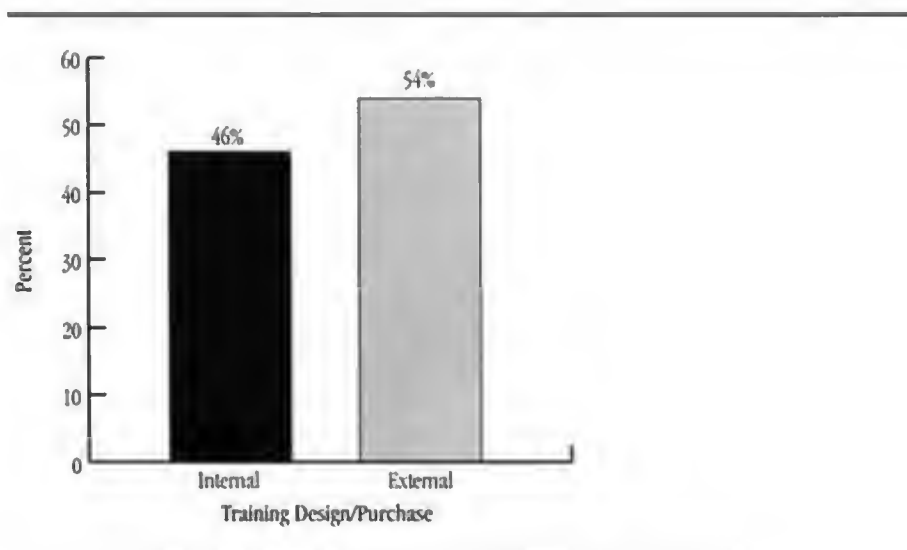
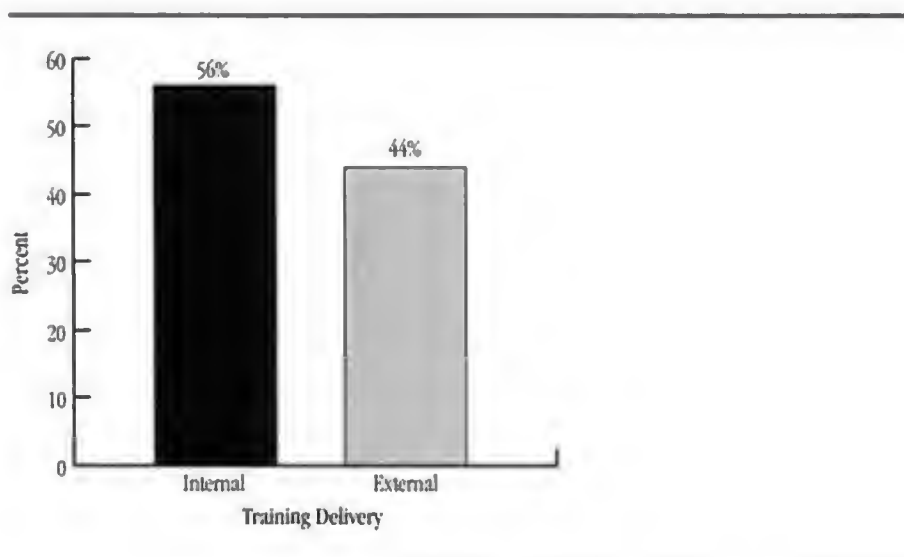


Figure 16
Training delivery



lower. This was due in large part to staff size, both in HR and the technical training function. In the utility group, 90 percent reported that both purchase/design and delivery of training programs were completed by external training sources.

Clearly, organizations are leaning toward using the expertise of outside training consultants to provide skills to employees. Technology also plays a part in this equation, as it is relatively simple to purchase skill-based computerized training programs for employees to use at their own workstations or in training centers. However, cost still appears to be a fundamental reason to move this function out of HR.

We do not know how these new methodologies for training are faring in the organizations. Only five participants reported measuring training's return on investment and no metrics were provided. This is typical of every training evaluation study run by SI over the past decade. Two companies indicated seeing results measured in terms of cost avoidance, cycle error rate, sales revenue, and safety (decrease in accidents and claims). Another company stated that it was in the process of developing metrics to measure its training's value to the bottom line. Much work needs to be done by human resources organizations in this area.

How does one know if the source or content of training programs is effective if no quantifiable results exist on their value to the company? Cost to the company is only one part of the measurement equation. Value-added is the strategic issue that must be addressed.

VII

The Financial Component: Linking HR to the Business

The professional challenge is how can HR restructure and become business driven possibly a P&L center as well.

Historically, human resources has been viewed by the organization as an expense center a necessary evil and sometimes a brick wall. The professional challenge is how can HR restructure and become business driven and possibly a P&L center as well?

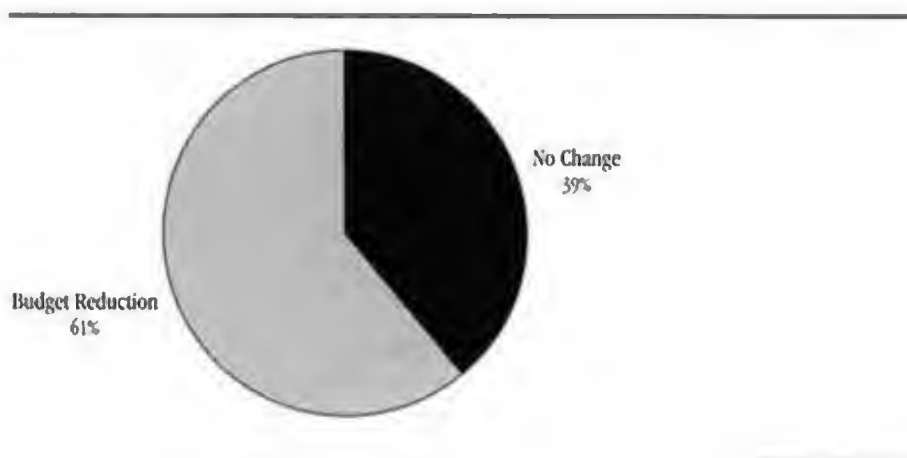
Typically, companies restructure to improve financial performance and position themselves for growth. They strive to become strategically managed and more responsive organizations that better address the competitive pressures of today and tomorrow. Their goals are to improve profitability, cost leadership, long-term growth; to enhance customer focus; and to increase speed and agility. Can HR incorporate these same goals into its structure and be able to evaluate itself against these factors?

The most effective HR restructuring effort comes from confidence and a commitment for continuous improvement and not from fear or simply cost-cutting attempts.

Restructuring's Effect on the HR Budget

Restructuring the human resources function often results in lowering cost even if the reason for changing the structure was not due to a cost reduction program. Sixty-one percent of participants reported seeing

Figure 17
Effects on HR budgets after restructuring



a reduction in their HR budgets since restructuring (Figure 17). The percentage decrease ranged from 10 percent to 90 percent, with the average result being 35 percent. Omitting the high of 90 percent, the average is a 24 percent reduction. The company reporting the high of 90 percent indicated that this was due to a transference of budget and HR responsibilities to their worldwide divisions.

In 31 percent of the companies reporting a decrease in budget, the reasons given were: (1) consolidation of budget and/or staff into one central unit, or (2) decentralization to field or strategic business units.

Shifting HR Responsibilities

Transferring responsibilities to line managers resulted in a 30 percent reduction in budget.

Grouping the reasons for the specific percentage decrease, the following general conclusions can be drawn:

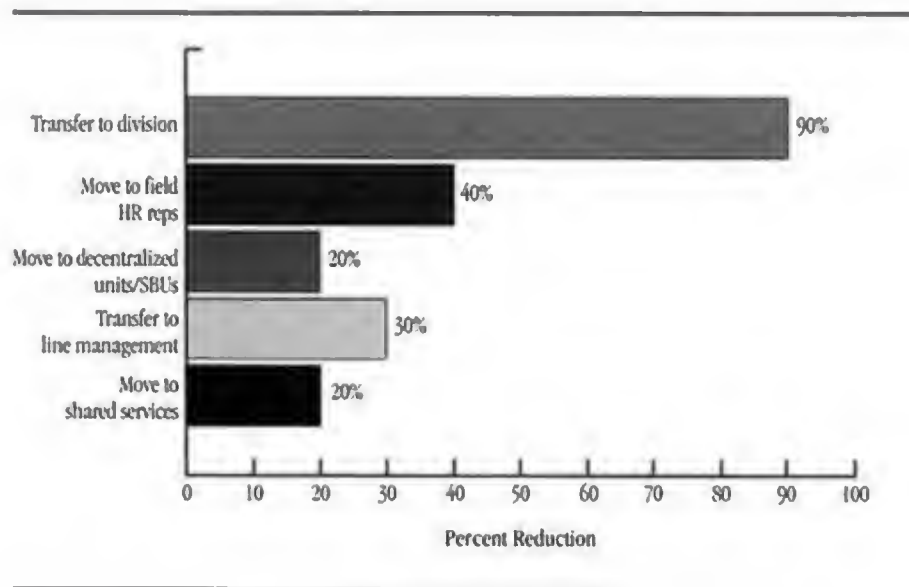
Transferring HR budget to a decentralized unit, SBUs, field HR reps, or divisions resulted in 20 percent, 40 percent, and 90 percent reductions.

Transferring responsibilities to line managers resulted in a 30 percent reduction in budget and 40 percent reduction in headcount.

Moving subsidiary costs to shared services at a parent company resulted in a 20 percent budget reduction.

These are summarized in Figure 18.

Figure 18
Budget shifts by reason after restructuring



In the HCM companies, all methodologies were used to best realize reduction in cost and optimization of staff and services.

There were no trends by industry groups. However, a greater trend to budget reduction was seen in companies with fewer than 6,000 employees.

Decentralization and Delegation

This study shows a strong inclination toward decentralizing or delegating some human resources to line management, strategic business units, divisional HR reps, or other departments in the organization. Fifty-four percent of participants reported that movement of at least one HR function had already taken place. Thirty-nine percent reported moving two areas, and 19 percent indicated shifting three areas.

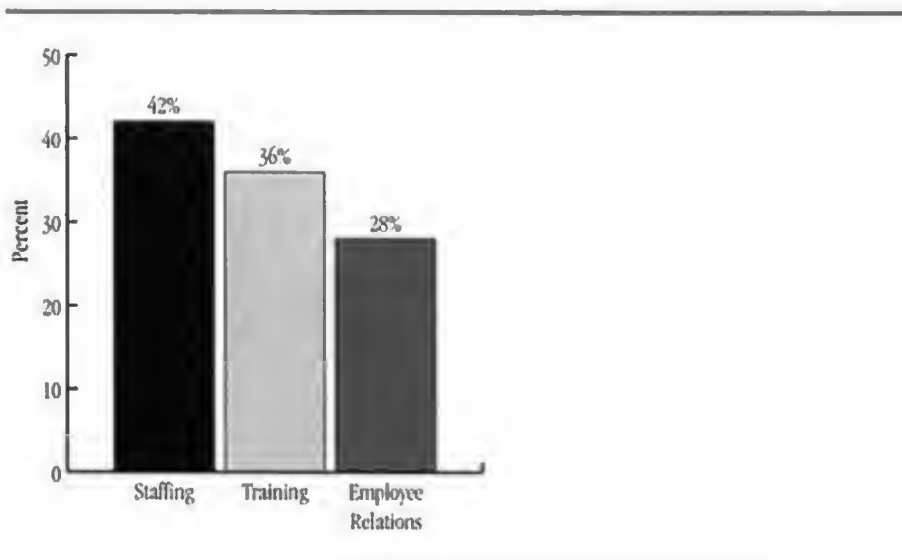
Figure 19 shows, by frequency of indication, the areas experiencing the most change:

Staffing (42%) Domestic and international delegated to division HR and/or line management.

Staffing planning to line and HR business unit reps

Reference checks to HR reps or line

Figure 19
Functions being moved



Training (36%) Delegated to line management or HR reps in SBUs.
 Employee development moving to line management and division HR groups
 Employee relations (28%) Delegated to division HR groups and line management.
 Disciplinary action and RIF given to line (shared with employee relations)
 Labor/employment litigation transferred to corporate counsel
 Employee orientation to line managers
 EEO/AP to HR reps in SBUs

Participants also indicated moving compensation design, administration, and performance management to HR reps in SBUs, as well as pension administration to the company treasurer/finance department. Employee record updating is being shared with managers, employees, and HR. Miscellaneous HR transactions are currently moving to department managers.

The primary reason for this shift of responsibility is to put some tasks closer to the customer (line). The notion is that if the activity is business related, it should be delegated to the line unit. If it is administrative, it might best be centralized in a shared service center. Participants indicated that there is no added value in having the task done by human resources, and that moving the function provided increased efficiency, and in some cases, greater expertise in the delegated area.

The cost of operating the function and/or a concentrated move to reduce HR cost was only mentioned once as a reason for moving the function. The principal drivers behind moving responsibility to line customers directly correlate with the reasons for restructuring human resources and the success factors in restructuring those being to improve service and redesign processes around business and customer needs.

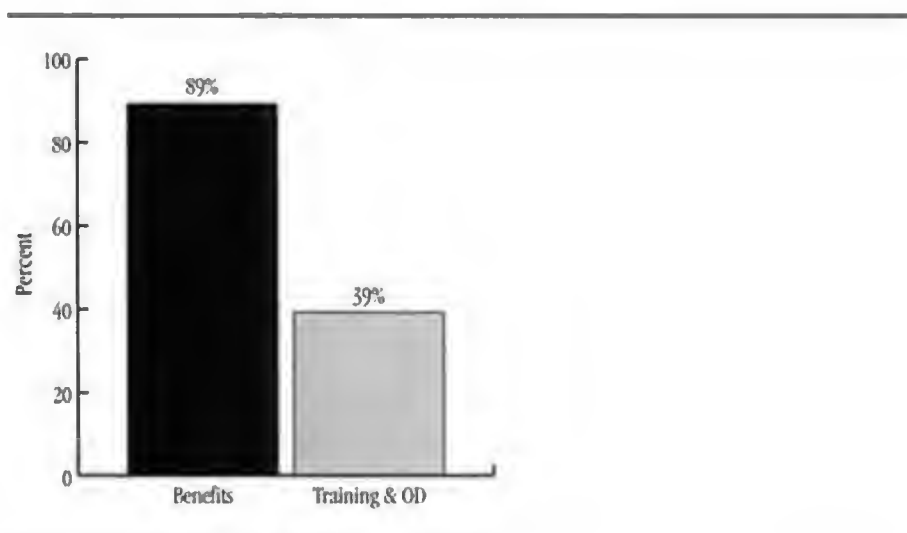
Outsourcing

The most frequently stated reason for outsourcing is cost.

In addition to delegating areas of human resources, a continuing trend is to outsource tasks. All participating companies were planning to or already had outsourced some HR functions as a step in their restructuring processes. Twenty percent indicated only one area outsourced, 32 percent indicated two areas, and 20 percent indicated outsourcing three to five areas. Figure 20 shows the two most frequently outsourced functions and the degree to which they are outsourced.

An interesting paradox is that the most frequently stated reason for outsourcing an HR function was cost—the direct opposite reason for delegation to the line, where service improvement was stated first. In those companies that did indicate a reason for outsourcing a particular area, cost was mentioned in all but one case. The second reason stated was to increase quality and efficiency, followed by increase in service. Participants mentioned value, technology, plus external knowledge and expertise.

Figure 20
Major functions outsourced



The strong variation in reason for outsourcing a function, as opposed to delegating a function, relates closely to the area or task outsourced. Companies find that administrative, repetitive tasks are often performed in a more cost-effective manner by external sources specializing in this area.

The tendency by all participants was to continue the trend to outsourcing by concentrating on benefits areas. This follows what we have seen occurring in many organizations over the past few years. In this survey, 89 percent of all companies indicated benefits, or a portion of benefits, as an area they were outsourcing. This includes the list in Figure 21.

The second area receiving outsourcing attention is the training function. Thirty-one percent of participants indicated they were outsourcing the training function and/or training delivery. Combining OD with training raises this to 39 percent. As we have seen throughout this study, training is moving in all directions, but mainly out of HR. Training is being placed in the hands of corporate universities, shared services, centers of expertise and external consultants for design of programs and/or delivery. In some cases, training is now delegated to the line or SBUs and/or outsourced. Any one of these could be the right move for an organization; a combination could most likely be the best to meet specific training needs. However, the problem is again the lack of measurement and tracking of training's return on investment. What are companies receiving in return for those dollars spent on training? Is the source of training meeting the

Figure 21
Benefit programs typically outsourced

• 401K plans	• LTD plan
• Claims administration	• Pension plan
• COBRA	• Profit sharing
• Dental plans	• Retirement
• Dependent care resource & referral	• Savings plan
• Flex benefit spending	• Stock options
• Health plans	• Unemployment
• Leave of absence program	• Wellness program
• Life insurance program	• Workers compensation

desired outcomes? Who knows? Does anyone care? What we do know is that providing quality training to a company's most valuable asset, its employees, is a costly endeavor, and that this task is being placed in a myriad of locations with no performance measures. Human resources needs to be addressing these questions. The development and retention of qualified, highly skilled employees is a high-cost item to an organization. It is also high on the CEO's list of human asset concernseven above benefit costs. HR must learn to manage this facet.

Other HR functions also indicated more than once as outsourced are:

- Compensation (and design)
- Educational assistance
- Employee assistance program
- Employment verification
- Executive compensation
- Expatriate administration
- Payroll
- Relocation
- Risk management and security
- Temporary staffing

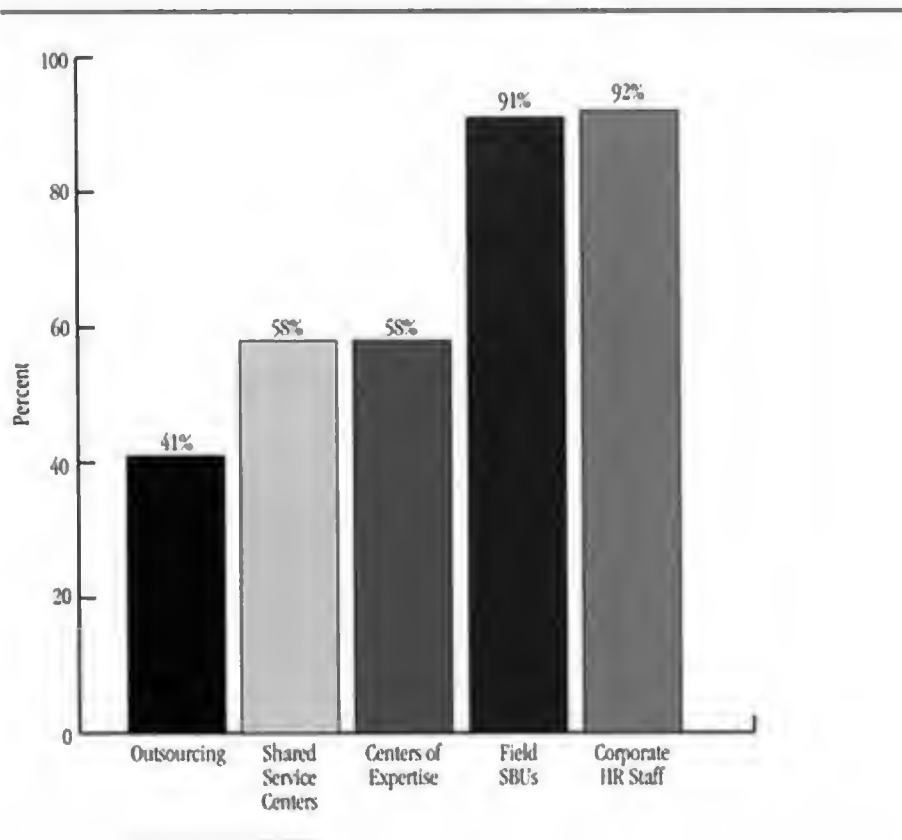
Also mentioned: outplacement, legal, policy maintenance, records scanning, food service, fitness center, employee purchase program, and service award program.

Reassignment of HR Staff

The highest degree of change is seen in the movement of the corporate HR staff.

Naturally, when you see movement of tasks or functions previously performed by the human resources department, you also see a redistribution or reassignment of HR staff. Forty-six percent of responding companies indicated a change, and for an additional 15 percent, movement was still in process. The highest degree of change was seen in the movement of the corporate HR staff. Ninety-two percent of the responding participants indicated reassignment of corporate HR staff. Figure 22 shows the varying degree of change. The range is from 0 percent in corporate before restructuring and 13 percent after, to 100 percent in corporate before and 17 percent after restructuring. Seventy-three percent show a decrease in

Figure 22
HR staff movementpercent of companies reporting change

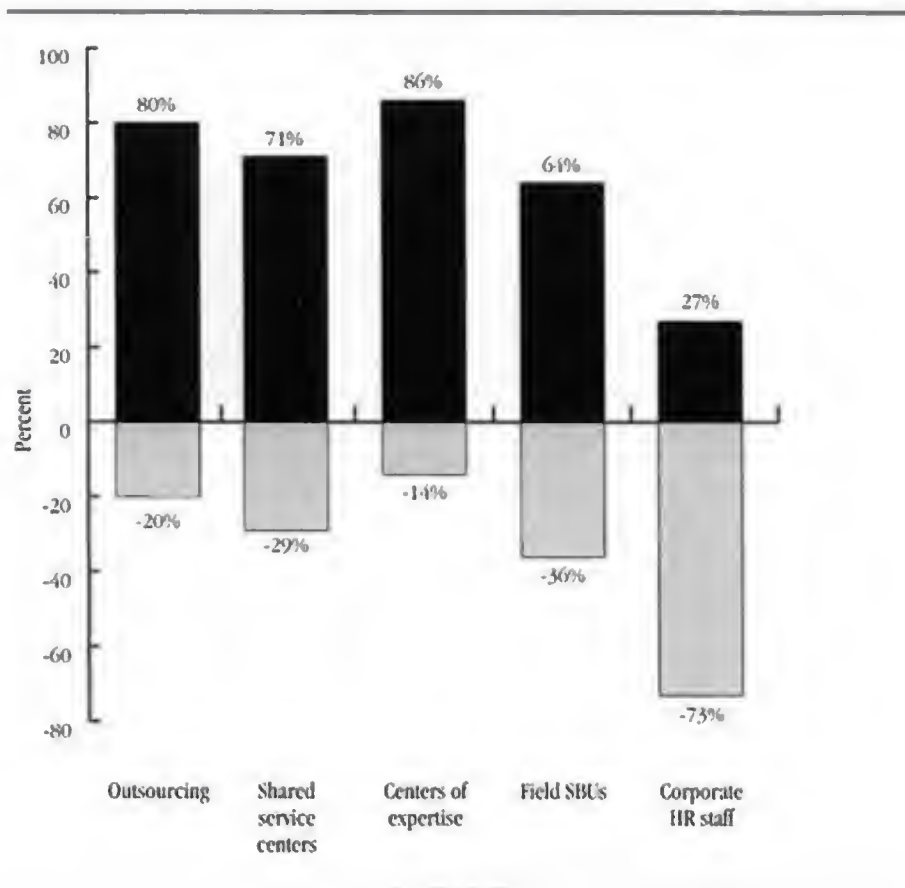


corporate human resources. In several cases, field staff had been assigned to a corporate university. Moving functions closer to the customer, outsourcing, and shared services all played a major role in the redistribution.

An almost equal shift is seen in the field SBUs, with 91 percent of companies reporting a change in staff numbers. The range is from 0 percent in corporate before restructuring and 50 percent after, to 100 percent in corporate before and 17 percent after. Overall, the strong trend was to increase staff in the field SBUs, with 64 percent of participants showing this inclination. The move to align with business and business units is the primary driver behind this trend.

The third area of change is seen in increasing staff numbers in the centers of expertise and shared service centers, with 58 percent of responding companies reporting a migration to both of these areas. Of those companies showing changes in these areas, 86 percent were increasing or newly placing staff in centers of expertise, and 71 percent were placing staff in shared service centers. Increasing staff expertise, better utilization of their expertise, and eliminating duplication of responsibility are all the major reasons.

Figure 23
Reassignment of HR staff



Last is the shift to outsourcing, with 41 percent of respondents citing this move or reason for reduction of HR staff. Eighty percent of the participants showed an increase. This followed the other areas of this survey. Outsourcing is not the trend it is a cost-cutting measure primarily seen in benefits. Figure 23 summarizes the reassignment of the staff.

Tangible Benefits of Restructuring

Benefits reported from restructuring are almost double the success rates of most quality programs.

Fifty-eight percent of the participants in this study reported that tangible, quantifiable benefits have been realized from their restructuring programs. This figure is almost double the success rates of most quality programs. It is probably the result of taking a broader view and a value orientation as opposed to the typical process focus of quality programs. Seventy-three

percent of the companies reporting benefits indicated a cost reduction of between 10 and 80 percent. As mentioned previously, in most cases, cost reduction was not the *thrust* for restructuring; it was a *fallout* from restructuring.

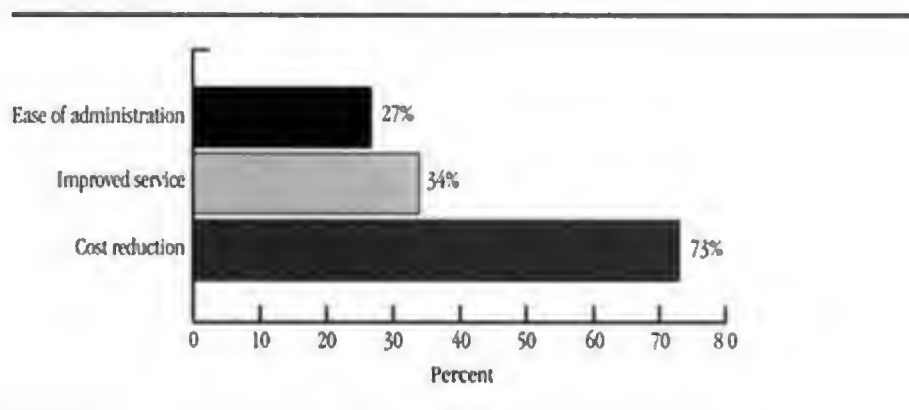
More important perhaps is the fact that 34 percent reported a service improvement of 80 to 100 percent! It is evident that restructuring around the corporation's business imperatives—becoming business driven and close to one's customers—can and does positively affect the service human resources provides an organization. Twenty-seven percent of the responding group cited ease of administration as a tangible benefit of restructuring. This undoubtedly relates to the use of transaction service centers and/or the outsourcing of process functions such as benefits administration.

Other strategic benefits of restructuring include:

- Better alignment with the organization and business strategy
- Elimination of replication
- Increase in the availability of expertise
- Better utilization of HR resources

Figure 24 shows the relative magnitude of different restructuring benefits.

Figure 24
Amount and type of major benefits from restructuring



Measures: Evaluation of Success

By frequency of indication, cost and quality are first.

As more companies restructure and reorganize or redistribute the HR staff and responsibilities, it is correspondingly imperative that they measure the success and results of their efforts.

This survey included four basic areas of measurement: cost, quality, efficiency, and customer satisfaction. By frequency of indication, cost and quality were tied for first, followed by customer satisfaction and efficiency. Figure 25 lists the performance categories measured by the participants in this study.

Service centers, field SBUs, and outsourced vendors tended to measure their work more assiduously than other units. This is probably due to the fact that more transactional activities are located in these areas, and transactions are easier and more common to measure than corporate staff activities.

Figure 25
Key performance measures for the new HR units

	First choice	Second choice	Third choice
Corporate staff	Cost/quality	Customer satisfaction	Efficiency
Centers of expertise	Cost/quality	Customer satisfaction	Efficiency
Service centers	Cost/quality	Efficiency	Customer satisfaction
Field SBUs	Customer satisfaction	Quality	Cost/efficiency
Outsourced vendors	Quality/efficiency	Cost	Customer satisfaction

VIII

How the New HR Business Model Affects Competitive Advantage

Future Human Asset Issues

Concern is shown for developing employee skills to succeed in a more competitive and international marketplace.

All participants responded to our question, What are the human asset issues that you believe will have potentially the greatest positive or negative effect on your company's competitive ability between now and the year 2000?

The findings in this survey closely mirror what Saratoga Institute found in its recent report on CEO and HR alignment. In that study, the number one issue for all CEOs was the development of the human assettheir employees. Findings show necessary concern for developing employee skills to succeed in a more competitive and international marketplace. Figure 26 lists the top four future human asset issues and concerns indicated by our responding participants, with employee development again at the top.

Many of the employee development issues found in this research study also correlated closely with our previous findings on the CEOs' third ranking critical human asset issue, changing the organization's culture. Empowerment of individuals and movement from an entitled to an accountable workforce are the goals. Also mentioned frequently in the study was alignment of employees to the goals of an organization and team orientation. Likewise, training in customer orientation and customer service skills were cited as important for all employees, not just the "front of the house." CEOs felt that all employees needed to learn how to market

Figure 26
The top four human asset issues



the organization. Again, this research showed the same degree of concern in developing the human asset. The development of these skills and this mentality is a major concern.

The Top Four Concerns

Employee Development

Our current study shows development of employees to be at the forefront of the HR director's future concerns. However, what we see now is detailed identification of specific development areas, indicating that the organizational change that companies previously experienced is now directing them to distinct areas of improvement. This is illustrated in Figure 27, which lists employee development descriptors.

As a subset of employee development, the participants also cited future concern centered around global topics. These global references pertained primarily to heightened awareness of the global marketplace and the increase of foreign competition. As we have reported, what's on the minds of most CEOs and other senior executives is their organizations' ability in the future to compete throughout the world even if they're only a domestic business. Even local service, domestic companies are affected by everything else that goes on in the world. Local companies sell to and service employees of companies that are competing in global markets. The following quotes from participants substantiated this hypothesis; the implications for developing employees to deal in the global marketplace are obvious.

"Globalization of HR programs"

"Global integration of culture"

Figure 27
Areas identified for employee development

• Agility	• Productivity
• Commitment	• Rapid adaptation and change attitude
• Competencies	• Reskilling
• Competitiveness	• Results orientation
• Efficiency	• Skills developed/aligned with business
• Empowerment	• Teamwork
• Expertise	• Training
• Faster learning	• Trust
• Flexible attitude	• Upgrading of skills
• Involvement	• Willingness to change
• Loyalty	
• Motivation	

"Global workforce and performance standards"

"Global processes"

"Implication of global organization on employees"

Leadership

Change in organizational structure and culture are requiring a new set of skills for management as well as for employees.

After employee development, the next three areas are leadership, attraction, and retention. Change in organizational structure and culture are requiring a new set of skills for management, as well as for employees. All employees, whether workers or leaders, are being called upon to develop themselves in ways not previously required. Leadership concerns itself with developing leaders, the quality of company leaders, the effectiveness of those leaders, and, specifically, the leadership skills of senior management. New structures and cultures require new leadership skills. Technology changes not only the nature of the workforce, but also work processes, job ownership, and accountability. Leading a highly skill-empowered workforce into a new marketplace requires new types of leaders and managers. Change provides many opportunities and demands for growth.

Attraction and Retention

The findings in attraction and retention are identical to those seen in previous SI research. Recruitment of employees and retaining employees are mandatory in a competitive environment. However, this is not simply a hiring issue. It is more an issue of attracting and hiring the "right" employees selective hiring for organizational fit. Since companies are concerned with changing their organizational cultures, developing empowered employees, and expanding customer service skills, they must also be able to hire into that culture. No longer are companies simply focusing on the technical capabilities. Culture is driving attraction. An employee needs to be aligned with the corporate belief system in order for both the firm and the individual to succeed. The retention of employees is driven, in part, by the types of people attracted. Poor fit in the beginning is a reliable predictor of later turnover. In an era dependent on workforce skills and attitudes, retaining key human capital resources is a major determinant of long-term success.

Compensation issues are also mentioned frequently by participants. Their concerns center around paying for performance and developing competency-based job descriptions and performance evaluations. This ties in closely with retention.

New Workforce Needs

In addition to the basic areas of concern cited for the traditional HR function benefit costs, retirement programs, cost management, contingent workforce, succession and career planning, unions, downsizing, and outsourcing one sees new workforce requirements coming to the forefront of the organization's management issues.

Diversity acceptance and welcoming of persons with different backgrounds
 Change recognizing the positive reasons and managing continuous change
 Higher company expectations
 Understanding the new relationship between employee and employer
 A new "social and psychological contract" must be formed with the workforce

Instilling a disciplined regard for principles and values not policy Manual to
 guide management behavior
 Creating a learning environment
 Thoughtful risk taking
 Resolving conflicts between motivation and insecurity/instability

Other concerns for HR are leveraging people resources, process focus and quality, business and product innovation, improving shareholder return on investment, and understanding customer needs.

In summary, the HCM organizations put employee development concerns at the top of their human asset management issues for the future. Sixty-five percent of the descriptors used by these organizations relate to employee development.

The HCM Structure and Company Profitability

Case studies provide ideas on how other organizations have restructured and the resulting effects on profit and revenue generation.

The case studies that follow are samples from participating HCM organizations. These are included to provide ideas on how other organizations have restructured their human resources function, and what possible relationships may be drawn to company profitability and revenue generation.

Case Studies

Goodyear Tire and Rubber Company embarked on a restructuring program in 1995 and anticipated that it will continue through 1997. It decentralized its HR function, and 40 percent of its corporate HR budget was transferred to its SBUS. Goodyear has 89,000 employees and four levels of management within Human Resources. Its HR staff to total employee ratio is at 1:114, with 25 percent administrative and 75 percent professional personnel in HR. It outsourced some of the benefits administration, moved four of the remaining HR functions to line management, and has a shared service transaction center and a center of expertise.

The primary driver for restructuring at Goodyear was the Human Resources Director's vision of a more effective, value-adding human asset management function. The secondary reason was to reduce cost. The result is an HCM structure that includes Succession Planning, Strategic Plan-

ning, and Global HR Councils. Goodyear is ranked in the top 100 on the Fortune 500 and saw revenues in excess of \$13 billion in 1995, a 7 percent increase over 1994.

Eastman Kodak Company ranks in the top 100 of the Fortune 500, with over \$15 billion in revenue and \$1.2 billion in profit in 1995a 124 percent increase from 1994. The first phase of a restructuring and consolidation effort began in 1994.

The primary driver for restructuring at Eastman Kodak was the HRO's vision of what the human resources function could and should be. This was supported by the CEO's vision of the function. The secondary reason for restructuring was to reduce costs. The process took only six months. The move was to consolidate the HR budget and staff into a single unit. In so doing, it was able to reduce its total HR budget by 30 percent.

Kodak outsourced its benefits administration and training delivery. It launched a center of expertise, a shared service center, and an employee response center. Additionally, several of the traditional human resources responsibilities were shifted to the line managers. The new organization retained some of the traditional human resources structure, maintaining a 60/40 percent ratio of administrative to professional personnel with five levels of management in HR. Even though this organization did not totally move to an HCM structure, its restructuring effort did reduce costs and improve service to employees. The initial results are positive and they are planning on continuing the restructuring effort.

Hewlett Packard is an organization that has maintained its position of being a forerunner in both technology and human asset management innovation. Its restructuring effort began in 1990 and is expected to continue beyond the year 2000. Again, the primary reason for restructuring was the vision of its HR Director and not simply a move to reduce or transfer costs. It has outsourced its benefits administration and Employee Assistance Program and has instituted centers of expertise and transaction centers. HP uses a state-of-the-art employee response center, a portion of which is electronic. It still maintains a low ratio of HR staff to employees by moving from 1:45 to a current level of 1:77 with 25 percent administrative and 75 percent professional HR staff and five levels of management within the Human Resources department. It has over 60,000 employees. Its new HCM structure includes Workforce Planning, Diversity, Communications, and HR Transition. HP is ranked in the top 25 of the Fortune 500 and realized a 50 percent increase in profits in 1995.

Raychem's restructuring resulted in a state-of-the-art HCM department that took advantage of many of the latest resources and options used in

restructuring human resources. Raychem began its innovative process in 1992 and completed it in 1993. Ninety percent of its HR budget was transferred directly and indirectly to its worldwide operating divisions, even though cost was the last priority for restructuring. The HR Director's vision came first, followed by the CEO's view of HR. Raychem outsourced benefits administration, relocation, and expatriate management. It moved several functions to its divisions' staff or line managers. The company instituted shared service transactions centers, centers of expertise, employee response centers, and corporate universities.

Those were certainly innovative moves for the early 1990s. Additionally, Raychem went from a 1:70 to 1:100 human resources staff to total employee headcount ratio and a 30/70 percent ratio of administrative to professional HR staff. Raychem has 3500 employees with four levels of management within HR. Its creative HCM structure includes Corporate Organizational Consulting, Leadership Development, Reward and Recognition, and Regional and Divisional HR Directors. This company is in the Fortune 1000 and saw a revenue increase in 1995 of 5 percent. This was accomplished despite a tremendous economic slowdown in its industry group, where declining profits were felt in many peer companies.

IX

A Model for Restructuring HR

Unisys' Approach to Reengineering Human Resources

A Business Need for Change

New technologiesbasic computing, bar code scanning, and on-line communications have forever changed many industries. Banks, supermarkets, retail stores, and many others have all automated in order to stay competitive and profitable.

But what happens to high tech companies themselves when the technology they sell evolves into something new? Like organizations in every other industry, they adapt or perish. A case in point is Unisys, a Fortune 200 company with over 37,000 employees worldwide, that made a 180-degree turn from its historic orientation, the mainframe computer.

"Four years ago, Unisys was primarily a mainframe and defense electronics company in a mature industry," Chairman and CEO James Unruh told stockholders in the company's 1995 annual report. "Today we provide not only a full portfolio of leading-edge client/server technologies, but also the services needed by clients to apply and support information technology for a business advantage." The new Unisys offers a PC line, servers, software, and a variety of business services. It has forged a number of alliances, most prominently with database giant Oracle.

Unisys had to reinvent itself and human resources took the lead.

That's the good news. The bad news was that the company has gone from a business that enjoyed 70 percent gross margins to one that could hope for something in the mid-twenties at best. To help compensate for the shortfall, in 1995 the company reduced its worldwide workforce by 7,900. Unruh and the others knew that a fiscal crash diet by itself was not going to solve the problem. To prosper and survive, Unisys had to reinvent itself, and Human Resources took the lead. In a matter of months, it reengineered itself as a prelude to reengineering the entire company.

Reengineering Defined

Reengineering, itself, is a concept that has been used to describe everything from redesigning a data collection form to inventing an entirely new way of conducting business.

Reengineering is a powerful new process that enables organizations to achieve extraordinary business results. It is a senior management-led change process that involves many people and gives an organization permission to recreate itself by redesigning the core processes which create and add value to customers.

These two paragraphs, excerpted from Unisys material describing its HR reengineering/redesign effort, succinctly set the stage for its guidelines on restructuring HR. Redesign typically is a rearrangement of the existing organization. Reengineering assumes that a totally new paradigm or structure is necessary. In the case of Unisys, the new structure was based on the concept that the human resources function could, should, and must take on a new, more business-oriented role within the company. The focus would be on contributing to the competitive advantage of the enterprise rather than on new ways of delivering human resources services. The later decisions about delivery methods would be driven by the new goal of competitive advantage.

"The challenge was put to us this way," says Worldwide HR head, David Aker: "HR has to take 40 percent out of our headcount, because for us to be effective and competitive in these new markets, we can't live with the kind of staff overhead we've had." In bottom-line terms, Aker's task was to take HR from a cost factor of about 1.7 percent of the company's gross margin to one of less than 1 percent.

He, too, believed that simply reducing staff was not going to produce positive results. "We looked at this challenge and said we can probably do

this incrementally, but we'll destroy HR's effectiveness in the process," Aker stated. "Or, we can start with a blank piece of paper and reinvent HR." The blank piece of paper won out.

The Human Resources Reengineering Task Force first convened in October 1994. The new model was disseminated to Unisys worldwide in July 1995. Thirty-three members of the Human Resources function from around the world composed the task force. Virtually all members of the function were involved in some aspect of the reengineering effort. The task force received Unisys' 1996 Chairman's Award for Innovation. This award recognizes innovative thinking and "outside the box" approaches to problem solving within Unisys.

In announcing the award, Unisys Chairman and CEO James Unruh noted that when Worldwide Human Resources launched its new model last year, it "successfully introduced a 'new age' approach to the delivery of HR services and integrated the HR function into the heart of our business."

Unruh stated, "It is uncommon to see such innovative thinking and fast turnaround from what is normally a tradition-bound staff function. Attributes such as creativity, innovation and the drive to achieve results, which this group demonstrated, are critical to the future success of Unisys, and worthy of the Award for Innovation."

The following guidelines illustrate the process used at Unisys for its successful reengineering effort.

Reengineering Guidelines: Step-by-Step Description

How the Project Was Structured in HR

Key Point: Have a compelling business reason for change and link with your business direction.

In the HR effort, change was necessary to:

Realign the function with the new Unisys Business Model, which sharply focused on the company becoming a client-dedicated, services-led, technology-based enterprise.

Achieve a business challenge to reduce the cost structure by 40 percent.
Establish an economic model that keeps the function rightsized to the business as a percent of gross margin.

Key Point: Senior management participation and a highly respected and capable project leader are essential to the effort.

The HR reengineering effort began with a discussion on the business challenge among HR and senior management. This led to meetings with Unisys IS process redesign experts to discuss the approach and elicit advice on project structure. A project manager was appointed who was a senior member of the HR function.

The role of the project manager was to:

- Develop the project plan
- Formulate the project structure
- Select the reengineering team
- Design the process strategy
- Drive the project through implementation

The project plan included three phases with critical path items identified for each. The three phases were: (1) Establish organization and economic models for the function and target processes for reengineering; (2) apply the economic model and begin deployment plans; (3) complete the deployment plans and implement the new models.

The reengineering team included:

A steering committee, composed of worldwide HR senior executives and senior line executives from the three major business units.

A task force that included members of the steering committee and twenty-one functional leaders.

Two facilitators, one internal who knew the company's systems and processes, and one external to the company who could bring an unbiased perspective.

Based on the implications of the business drivers for HR and work that had already been done in the area of culture change, the project manager and the vice president used six levers for change as the springboard for reengineering the function. They were:

- Communication
- Structure/organization
- Performance management
- Reward and recognition
- Training/development
- Staffing

These levers were the value-adding areas through which the HR function could contribute to building organizational capability, thus leading to competitive advantage. The process strategy was derived from this foundation and included meeting agendas, initial steps, and time lines. The role of the facilitators was to help to implement the project plan by:

- Designing the structure of the whole team meetings and activities
- Orchestrating team events
- Identifying and leading the group through decision models
- Moderating the meetings
- Introducing speakers
- Facilitating discussion of issues

Establishing Organization and Economic Models for the Function and Targeting the Processes for Reengineering

Key Point: Ensure the Reengineering Team is committed to change and uses best practices.

The HR effort was launched at a meeting of the steering committee. The focus of the meeting was to:

- Gain a group understanding of the business drivers for the next two to three years along with implications for HR.

Create a philosophical basis for the work that had to be done. With this understanding and philosophy, create a vision for the function.

The discussion of the business drivers relied heavily on input from the senior line executives (the clients) on the steering committee. In addition, the project structure was introduced and discussed.

Philosophical Platform for the Reengineering Program

We looked at the size of the task reduce costs by 40 percent and concluded that none of our past approaches to cost reduction would leave us with a function that could add value to the business. So we borrowed from another Unisys concept Customerize. We started with a blank sheet of paper and asked our clients: "What should we be?"

*Dave Aker, Vice President
Worldwide Human Resources*

They also created a purpose statement to serve as the basis for going forward to the task force. It was called *A Platform for Change* and it read:

To provide a delivery system for the identification, acquisition, placement, development, satisfaction and transition of Unisys human competencies and capabilities.

Next, the project manager held the second meeting with the full task force. The objective of this three-day meeting of the whole group was to begin the process work involved in reengineering the function.

To bridge from the earlier meeting of the steering committee the meeting began with the following agenda topics:

HR Reengineering: Nature, Purpose, Scope

Review of Steering Committee Meeting

HR Reengineering Project Plan Steps, Deliverables, Processes, Timelines

The facilitators then took over the meeting and structured a discussion on the HR function, its processes, and where they fit.

They asked the group to begin with the Platform for Change (the purpose) and answer the question, What do we need to do to fulfill this platform?

Key Point: Conduct a preliminary analysis of the function and environment.

They examined what their different customer groups wanted from HR and where the most value was added. The group used the six levers for change and mapped the key HR processes to the levers using a matrix.

Key Point: Steer a course with a model versus building from a blueprint.

The task force identified sixty-plus critical HR processes categorized by lever. Based on this mapping, they applied an organizational concept of lines of service to the levers. Thus, the HR service lines were born.

The task force was then divided into smaller groups to fully examine every service line. Each small group was asked to take one service line area and to describe its current environment, expectations, concerns, and barriers to change, as well as what it should be in the new model.

Key Point: Break work into manageable blocks. Form teams based on relevant skills and experience. Overlap team membership to assure linkages when parallel processing.

The task force was then divided into five subteams with team captains as subproject managers. Each team had specific assignments, schedules, and challenges. The team structure included three teams devoted to process and two to the content of the models. The teams and their challenges are outlined below.

Team A Focus Groups: This team was chartered to gather input from both HR and line people to generate "bottom-up" cost savings/reengineering ideas and feedback to the task force regarding the models that would be developed.

Key Point: Involve employees and get feedback.

Team BEconomic Model/Cost Reduction Options: This group was chartered to gather competitive benchmarks on both performance metrics and effective practices. Then, the team should determine what would be affordable and how they would achieve cost targets, as well as to work with Team C to develop the organization model, including the appropriate organization structure.

Key Point: Establish measurements, goals, and objectives.

Team CJob Profiles and Competencies: This team was charged with outlining the role and responsibilities of key positions within the organization's new model and building job profiles with applicable competencies for the redefined HR roles and processes.

Key Point: Increase focus on business results.

Team DAssessment and Selection: This group's charter was to structure the assessment teams, train the teams, and map functional members against the competencies identified within the new organization structure.

Team ECommunication/Professional Development: This team's purpose was to keep the staff personnel informed during the reengineering effort and to build appropriate curriculum and professional development plans. It was anticipated that very different skill sets would be required in the new organization model.

Key Point: Provide ongoing communication. Anticipate the need for staff development to implement the new models.

How the Processes Were Selected for Reengineering

With input from the Unisys IS group, a simplified approach to reengineering HR was designed. Using this model, the sixty-plus critical HR processes identified by the task force were evaluated, based on eleven factors, to identify those that had the most potential benefit from reengineering. Each process was assessed based on its:

Business Value:	- Role in the strategic plan - Competitiveness impact - Service quality impact - Capital efficiency
Cost/Value Gap:	- Resource impact - Other cost impact - Management expectations
Satisfaction/Performance Gap:	- Customer satisfaction impact - Performance measurement and benchmarking
Scope:	- Complexity - Internal visibility

These factors were plotted on a value/speed chart to identify those that would go first and those that would come next. This resulted in twenty processes that were candidates for reengineering. These were presented to the task force at the next meeting.

Deploying the Organization and Economic Models Worldwide and Reengineering Processes

*Key Point: Move fast.
Reengineering depends on
the energy and enthusiasm
that come from early results.*

At this point, the project advanced into a second phase one that was concerned more with refining the models, reengineering selected processes, and implementing the models.

At the third meeting, each subteam updated the whole task force on the status of its progress in the four weeks that had elapsed since the last meeting. However, most of the emphasis was on:

- Conducting a thorough review of the drafts of the four job profiles.
- Examining the economic model based on the results of testing the model in one U.S. site and one international site. Based on the results

(Continued on next page)

(continued from previous page)

of the test. staff adjustments and redeployments were driven by the needs of business unit organization structure.

Reviewing the performance management and compensation issues that had to be addressed in the new organization, plus the economic models and the recommendations on what types of approaches would be taken.

Selecting six HR processes for reengineering. The task force as a whole looked at the top twenty candidates for reengineering and, using the factor and speed/value analysis techniques, they chose to start with the following processes:

1. Key resources development planning
2. Variable compensation
3. RIF termination processing
4. Benefits administration
5. Consultant contract management
6. Employment application processing and control

All of the selected processes had high visibility and were ones that the task force believed would result in rapid gains. This would help to build momentum for later structural and process reengineering.

New teams were formed for each process above, and overlapping membership was again designed into the team structure. The teams then began the reinvention work.

Between the two meetings during this two-month period the staff worked through issues and ensured connections between all subteams. The core of the restructuring was occurring on a daily basis through the subteams.

With the subteams well underway, the project manager and the facilitators were dedicated to planning for the implementation of the models. They addressed the question, "How do we leverage the knowledge that had been built within the task force to help others understand and commit to the model with the same enthusiasm and energy that existed within the task force?" They needed to build a critical mass of committed people to carry out the changes.

As the work progressed, they began to plan for an HR Conference where they would leverage the momentum and begin to teach the model. The plan was to bring together the forty task force members with fifty to sixty HR people whom they believed would play key roles in the new organization.

Key Point: Begin to deploy the models before all the questions are answered because that's how you get the answers.

Two months after the task force met as a group, the model began to be deployed with the announcement of seven Service Line Partners. From here on, the Service Line Partners would focus the process reengineering efforts within each of their service lines, based on the priorities already established by the task force. With the Service Line Executive team in place, the meeting turned its focus to:

- Understanding the focus group feedback and refining the economic and organization models, along with the job profiles.
- Understanding the status, timelines, and people needed in the implementation of the new core HR IT system.
- Updating the task force on the reengineered staffing processes and transitioning that project into two service lines.
- Providing input to Conference plans.
- Brainstorming Q & As on the new roles to be played by each person at the HR Conference and during the subsequent implementation of the plan.
- Conducting a rehearsal of the presentation to line management.

Worldwide HR Conference: Building a Critical Mass for Implementation

Implementation of the HR practices model was launched officially at the conference attended by the forty task force members plus fifty other HR leaders. This four-day conference was devoted to:

- Appointment of the Managing Business Partners to fill out the HR executive team.
- Presentations by the CEO and senior executives from each of the three business units on their visions of the role HR must play in the business and on their commitment to their newly defined roles within the HR model.
- Presentations of the models, HR compensation, performance management, and the assessment process that had been used to select

the executive team and that would be used on the rest of the population as well.

Concurrent breakout sessions on each service line, devoted to discussion of charters, issues, challenges, process reengineering, and new tools.

The Next Steps in the Journey

Key Point: View reengineering as an ongoing process.

With a projected goal of completing the full deployment of the models in the following three months, the work that was to be done included:

- Completing an assessment process on all HR employees.
- Completing the HR compensation and performance management models.
- Creating a certification process based on the job profiles.
- Further deploying the model by selecting people for the new positions and making headcount adjustments and salary decisions.
- Forming implementation teams with HR resources and connecting task force members at each field location in the new model.
- Completing the training materials for delivery.
- Installing groupware to facilitate the matrixed communication and work patterns required by the organization model.
- Setting up an implementation hot line.

Key Point: The end is not the end.

Unisys' New Business Model

The new structure allows HR to focus on key services to improve its client's organization capability.

The New Business Model and associated organization structure allows Unisys HR to focus on key services to improve its client's organization capability. Using this model allows Unisys to:

Understand the client's business.
Identify areas for improvement.
Recommend the right solutions.
Gather the appropriate resources within their organization to assist in the implementation of the solution.

Within Human Resources there are the following functional titles and groups.

Managing Business Partners, Business Partners, and Associate Business Partners

Business Partners work closely with an operating business unit. They are the focal point for introducing and maintaining the human resources solutions within that organization needed to grow its current and future organizational capabilities. To do this, they must work closely with the Service Line Partners to translate the organizational requirements into solutions. The Managing Business Partner reports to the business organization's senior line executive and the VP of Worldwide HR.

Service Line Partners

There are six Service Lines in the Human Resources Model:

1. Performance, Productivity, & Resource Management
2. Recruiting and Staffing
3. Professional Development
4. Rewards & Recognition
5. Organization Effectiveness
6. Employee & Labor Relations

Each Service Line Partner has responsibility for one major service line. These individuals are accountable for how each service line will be organized and staffed, worldwide client requirements/solutions, cost-effective methods, processes, tools associated with the solutions or products, and best practices. Service Line Partners keep the Business Partner informed and work closely with the Resource Teams. The Service Line Partner reports to the VP of Worldwide HR.

Resource Teams

Resource Teams are comprised of Senior Service Line Consultants, Service Line Consultants, and Client Support Associates. Consultants are responsible for delivering solutions to the clients within one or more service lines. Client Support Associates support a variety of services in several service lines. They are the first interface with employees and line management in providing a variety of services, usually across a geographic or assigned client area.

The Unisys case can be summarized by the following statement from Dave Aker:

Only through the joint efforts of all the service lines, working together with the Business Partners, we will be able to enhance the organization capability of Unisys. It is our goal to provide seamless solutions to our client organizations through a strong internal partnering among Service Line Partners, Business Partners and the Resource Team Members.

X

How to Design the HCM Structure

Key Issues

Plan ahead and focus on the customer.

Many options are available when approaching a restructuring project. While there are some caveats such as plan ahead and focus on the customer the ensuing delivery mechanisms can take whatever form naturally suits the situation. The following is a short checklist of questions. Their answers should start the process in the most effective direction.

What are the economic issues facing our organization now and in the near future?

What are the enterprise's values and the corporate strategic business goals?

What organizational human capital factors are curtailing the enterprise's ability to deal with the requirements of the market forces and the customers?

What are the CEO's and top executives' major concerns?

Given the above, what is inhibiting the human resources department from delivering the most effective support?

Which human resources department services are contributing at an optimum level now?

What needs to be addressed to bring the total HR function to optimum performance as quickly as possible?

What is needed to gain the full commitment of the HR staff to the long-term goals of the company?

Success in restructuring requires a holistic, outside-in view of the management of the human capital of the enterprise. An effective structure delivers the appropriate level of service to each internal customer on time and at the lowest possible cost. Balancing human and financial values has been shown to yield the best long-term return on investment for all stakeholders.

Key Success Points

Participants share their insights.

The following question was posed to all organizations that participated in this study:

If you were advising someone on how to plan and carry out a restructuring project from the beginning, what are some of the key things you would recommend they do to insure the highest possible degree of success?

The following, in outline format, are the participants' insights.

A. Planning

1. Use a model benchmark other companies' practices and models. Include performance metrics to ensure the validity of the practice.
2. Have clearly stated goals, objectives, and targets.
3. Develop a clear and focused strategy.
4. Understand the impact of change on the organization and on the people.
5. Plan for upset during the transition and for operating during the transition.
6. Phase in the changes structure, systems, and people.

B. Understand Your Business

1. Know the needs, goals, and culture of your organization.
2. Maintain a customer focus and orientation.

3. Understand and buy into the company's vision, values, and principles.
4. Connect the HR strategy to business.
5. Develop and align the values/principles of HR structure with company goals.
6. Maintain a value-driven plan.

C. Teamwork Partnering

1. Obtain internal and external customer input.
2. Involve line and staff customers.
3. Use teams during development and implementation.
4. Partner with outside consultants to shorten the learning curve.

D. Leadership and Commitment

1. Obtain top management support and involved attention.
2. Select strong project and team leaders need innovative, respected, committed, quick-learning, and hard-driving people.
3. Have a change management plan, but remain focused on the strategic path.

E. Communication

1. Employ massive communication to everyone, all the time, more than imaginable.
2. Use every medium, method, and opportunity.
3. Communicate continuously and widely.

F. General Summary

1. Work backward from a customer focus.
2. Define expected outcomes in the beginning.
3. Establish metrics for evaluating success.
4. Set a tight time frame and move quickly.
5. Strive for flawless execution.
6. Utilize staff strengths perform skill assessments.
7. Improve processes and upgrade systems.
8. Communicate to all.

Ensuring Effectiveness

Use the eight factors that constitute best practice.

Effective management of the human side of the enterprise is based on a set of fundamentals rather than on transient, surface processes. A five-year research program studying so-called best human asset management practices in 1,000 companies confirmed that the top performers share a common set of beliefs, traits, and stratagems. These shape and become the antecedents of effective organizational structures and work processes truly constituting a "best practice". Exceptional human asset management can be virtually assured when these factors are understood as they apply to your enterprise. In effect, they cause you to make design decisions that are appropriate for your organization. The eight factors that constitute best practice are:

- Balanced Values: Add human and financial value in all you do.
- Commitment: Make a long-term commitment to a core strategy.
- Culture: Link systems and culture for direction and power.
- Communication: Communicatecommunicatecommunicate!
- Partnering: Involve others inside and outside.
- Collaboration: Work together internally in support of each other.
- Innovation and Risk: Be bold, but not rash.
- Competitive Passion: Constantly search for improvement.

These factors are treated at length in *The Eight Practices of Exceptional Companies*, by Dr. Jac Fitz-enz, AMACOM Books, 1997.

XI

Looking Ahead: The 3R Path to Success

RestructuringReskillingRetaining

Over the past decade it has become increasingly clear that what got us here won't get us there. The systems, skills, and values that drove our enterprises from the 1950s until now are not adequate for carrying us into the next millennium. Changes in technology, population demographics, and customer demands have driven organizations to find or invent new management forms and processes.

The certitude of the past has been overwhelmed and replaced by paradox. Today, we expect people to be creative individuals as well as team players. We direct managers to delegate and still control. Executives try to balance centralized and decentralized functions. Pundits tell us to think globally and act locally. To survive, much less succeed, we have to grasp the elemental changes currently impacting our companies and think in the future tense while delivering in the present. Trying to respond to today's and tomorrow's problems with yesterday's solutions is a formula for failure.

With the transformation from the industrial to the informational world moving at light speed, how can benchmarking the work of others be logical? Benchmarking other people's processes tells us what might have worked for them yesterday. Copying them already puts us in second place. In today's massively disrupted workplace we must find answers that

Current research strongly suggests that the breadth and depth of organizational change demands three fundamental responses.

are timeless. Our actions must be so near the essential truth of human interaction that they will serve us under all conditions. A review of current research strongly suggests that the breadth and depth of organizational change demands three fundamental responses. These actions will be required for as far into the future as anyone can currently see. They are the 3Rs of *restructuring*, *reskilling*, and *retaining*.

Restructuring

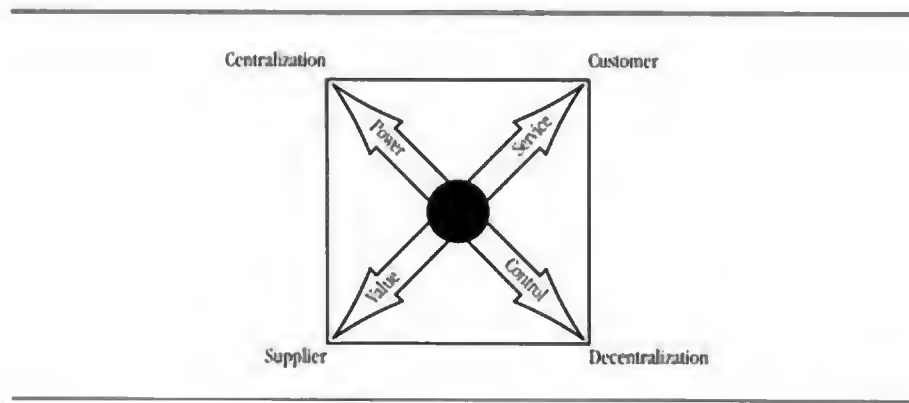
New problems require new solutions that must rely on new structures and methods. In a marketplace that is moving at revolutionary speed, old structures no longer suffice. Along with downsizing and outsourcing, we must invent new structures to carry the load. One of the most prominent activities today is restructuring. This means more than reorganizing the chairs. Restructuring is characterized by four issues: relationships, structure, power, and value focus.

Relationships. Currently, almost everyone is engaged in some form of alliance. The underlying idea is to leverage scarce resources and to solve problems quicker. Partnerships, coalitions, and consortia also create knowledge exchanges. More importantly, we believe they presage a new paradigm of competitive cooperation. This paradoxical model is one of the most fundamental changes in business since the start of the industrial revolution.

Structure. There is a new structure developing that is fairly consistent across companies. It is a redeployment of functional responsibilities among line managers, corporate staffs, and outside vendors of human resources services. This is being driven by the necessity to find the most cost-effective and service-sensitive methods for supporting the human capital of the organization. Shared service functions, employee response centers, and outsourced services are being designed to free the line people to concentrate on production and customer service. Savvy executives recognize that when they change structure, they have to simultaneously treat human needs as well.

Power. There is a pronounced increase in the delegation of human resources services to other providers. The more effective HR managers realize that they can often achieve more and operate at a lower cost if they relinquish some administrative control. Where it can be shown to be both cost effective and serviceable, companies are pushing peripheral, non-value-adding functions out to vendors. Where it makes good business sense, line personnel can become effective managers of their human as-

Figure 28
Powershift



sets. Outsourcing and delegating are effective ways to shift professional resources from processing to adding value.

The key issue around power is shown in Figure 28. Rather than battle over control through centralization or decentralization, management should be focused on serving the customer. This pays off with value to the supplier or provider of the service.

Value. It is unquestionably clear that profit-making companies can no longer maintain functions that do not add business value. Accordingly human resources must identify its jobs and people that do not add value. The jobs have to be eliminated through work simplification, process improvement, or outsourcing. Personnel have to be retrained, reassigned, or helped to find a better place for themselves outside the organization. Value is the key criterion today.

Reskilling

As markets change, organizations must change and jobs must be redesigned. Obviously, this directly impacts people. Technology is requiring new skills and knowledge. Training has gone from a sometime activity to a constant imperative. In every industry from electronics to health care or sanitation, technology is driving change.

Every manager must develop the ability to share the corporate vision and values, instill constructive beliefs, and create positive attitudes. Downsizings have wiped out the time-honored psychological contract of a day's work for a day's pay. Unless employee motivation can be stimulated, no

amount of restructuring and reskilling will create and sustain a world class operation. At the employee level, competence extends past job skills. Companies are approaching competence at a very basic level. The three competencies that will be important at all times in all companies forever are:

Ability to work with other people. With the growth of collective forms of work such as teams and partnerships, everyone is in close contact with others. Interpersonal and teamwork skills don't come naturally. Almost everyone can use help in learning how to be more effective with others.

Analytic capability. All employees must be trained to use data as we ask them to be empowered. Everyone needs to be able to see relationships and patterns within data. Employees must be able to identify connections and trends, so that as one factor shifts they know this is a signal that another factor will also begin to move.

Flexibility. Change is not always pleasant. It implies an unknown that is the most basic of fears. Yet, innovation and risk are basic requirements to be on or near the leading edge. We have to go beyond lip service to rewarding open-mindedness, creativity, and adaptability. This implies that people be given the information and security they need to be open and willing to change.

Economic security is gone. The only security that anyone can have today is his or her personal competence. Corporate loyalty has been severely damaged. Technology has invaded every aspect of work. The contingent workforce of non-full-time regular employees is growing rapidly, but it is not the solution to world-class performance. A skilled core group is the only hope.

Retaining

A basic truth of life is cyclical. Just as something is plunging toward the bottom of a cycle, that is the time to prepare for the upswing. The data has consistently shown that in the midst of most downsizings there is selective hiring. This is because skilled personnel are always in demand. No matter the state of the job market, we almost always find ourselves short of some critical skills.

For organizations to be successful today they have to recapture the minds, hearts, and spirits of their people. This is carried by communications.

Communication builds trust. People are more motivated to apply their skills and knowledge when they believe that nothing of importance is being held back. Research confirms that the things people most want to know are: What are my chances for being successful in this company and where is this company headed? Likewise, when restructurings start with open communications they obtain better results.

Cost of Turnover

Studies of turnover carried out in North and South America show how costly it is. The smallest costs are for nonexempt personnel. They run from at least three months pay often up to one year's average salary. Professionals and managers typically cost at least one year's worth of pay or more, and as much as two year's pay in some cases. The greatest costs are hidden in lost productivity and vacancy costs, which affect customer service. As more people come to realize how expensive unwanted separations can be, they are starting to work on keeping people.

Three basic issues drive retention:

1. Why would anyone want to join our organization?
2. Why would anyone want to stay in our organization?
3. Why would anyone want to leave our organization?

Early returns of an ongoing retention study show that nearly 85 percent of the people leaving companies are not dissatisfied with pay or opportunity: The cause is poor supervision and working conditions.

The Short, Sure Path to Success

What value are we seeking?

Whenever we strive for improvement, whether it be through restructuring or other programs, it is inevitable that we will win some and we will lose some. The solution to every problem lies within the questions we ask. The prime question must be, What value are we seeking? That is, are we trying to improve corporate productivity, quality, or service? And, more importantly, if we did, how would that affect our competitive advantage? The connections implied in that chain of questions are easier to make than most people think.

For instance, are we going after better productivity, quality, or service? If we found it, would it enhance the company's competitive position with its

customers? Could we offer a higher quality product at a lower price or be able to deliver and service it well? Human resources can have a major effect on that. Find the link between what HR has to offer and the business problem. Build the restructuring plan around that.

The following are examples of value-added measures that HR can track to measure its effectiveness.

- Return on equity
- Revenue per employee
- HR investment
- HR costs
- Payroll expense
- Outsource versus inside costs
- Process quality
- Policy management
- Service center productivity and costs
- Employee satisfaction
- Employee and leadership development

As HR comes in closer contact with customers and the marketplace, it is able to view itself from the standpoint of how it contributes to the operating objectives of the company.

Then, go to the process. Find the business (not HR) processes that HR can contribute to improving. Is there a human skill or interpersonal process that HR can help improve? If it did improve, what would the result be (assuming everything worked as it should)? How much better would that be than before HR intervened? How does that affect productivity, quality, or service?

It is almost that straightforward. If HR restructures around the corporate initiatives and values, it should be successful.

Appendix

Worksheet

Matching the HCM Structure to Organizational Variables

Many options are available when approaching a restructuring project. Several organizational and strategic questions are listed on the following worksheet to start you in the thought and design process. Often it is difficult to connect the qualitative with the quantitative aspects of organizational dynamics. The worksheet was developed to assist you in this procedure.

The form is divided into five sections:

Restructuring Reasons

1. CEO/Management Vision
2. HR Director's Vision
3. Service Issues
4. Cost Management

The New HR Structure

5. Options

All of the sections incorporate the issues discussed throughout this study. The basic topics and worksheet can be applied at the organizational, strategic business unit, department, or human resources function level. All topics apply at every level. However, as they cascade down through the organization, they naturally become more specific both in application and need.

The topics are best used by your restructuring team in a group effort with input from the departments or functions being reviewed. These are not designed to be the only form of review. Apply each set of topics and questions to specific HR organizational departments. This will allow you to view each area/function individually and check its business needs, problems, applicability for change, and improvement possibilities. These are starting points for connecting the qualitative and quantitative issues. The final content can take on many forms.

Human Resources Restructuring Process Worksheet

HUMAN RESOURCES RESTRUCTURING PROCESS WORKSHEET

CEO Management Vision	Organizational Expectations for HR _____		

HR Vision	HR Vision _____		
	Success Measure _____		
	Change Barriers _____		
Service Improvement	Purpose _____		
	Departments _____		
	Critical Need(s) _____		
	Customer(s) _____		
	Internal _____		
	External _____		
	Issues/Problems _____		
	Performance Indicator/Measure _____		
	Business Change Reason _____		
	Performance Indicator/Measure _____		
Cost	Change Barriers _____		
	Budget: \$ _____	Actual: \$ _____	Desired: \$ _____
	Management Levels	Current: _____	Desired: _____
	Administrative Staff	Current: _____	Desired: _____
	Professional Staff	Current: _____	Desired: _____
	Total Employees _____	Growth Projection $\pm$ % _____	
The New HR Structure Options	Are any of the following applicable for any area of HR or company department?		
	Response Center	Y/N _____	Area/Function _____
	Corporate Universities	Y/N _____	Area/Function _____
	Transaction Center	Y/N _____	Area/Function _____
	Center of Expertise	Y/N _____	Area/Function _____
	Delegation	Y/N _____	Area/Function _____
	To: _____	Budget transferred: Y/N _____	
	Outsource	Y/N _____	Area/Function _____
	Automate	Y/N _____	Area/Function _____
	Eliminate	Y/N _____	Area/Function _____
	Other	Y/N _____	Area/Function _____

Total Projected Budget Impact \$ _____

Survey Questionnaire

SARATOGA INSTITUTE
HUMAN RESOURCES RESTRUCTURING PRACTICES STUDY

If you have significantly restructured or reorganized the human resources function within the past three years, please answer the following. **Your data will be included in a summarized report and will not be identifiable or reported directly.**

For classification and possible contact by Saratoga personnel only, please complete:

Industry _____ Number of U.S. Employees _____

Name _____ Title _____

Company Name _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____ e-mail _____

1. Recognizing that restructuring may be an ongoing process, what were the beginning and ending dates of the main part of the HR restructuring process?

Began: Month _____ Year _____ Ended/Will End _____

2. What drove the company to restructure HR?

(Indicate all that apply by priority: Example: 1 = High - 2 - 3 - 4 - 5 = Low)

Improve service _____ Reduce cost _____ Update methods _____

Downsizing _____ CEO's vision of HR _____ New HR Director's vision of HR _____

Merged/Acquired _____ Benchmarking (seeing others do it) _____ Other _____

3. Did restructuring result in transferring budget into or out of a consolidated HR budget?

Yes _____ No _____ If yes, % decreased or transferred, which direction, and briefly explain:

4. a. List functions reporting directly to the chief HR executive or include organization chart.

b. To whom does HRO report: CEO _____ COO _____ CFO _____ Other _____

5. How many levels of management are there within the HR organization from the chief HR executive to front line HR service delivery? _____
6. What is the ratio of total HR staff to total employees? (Ex: 1:100?)
 Five years ago: 1: ____ Now or after restructure: 1: ____ Five years from now: 1: ____
 In divisions: Five years ago: 1: ____ Now or after restructure: 1: ____
7. Of the total HR staff, what percent are nonexempt administrative positions versus exempt professional positions: Administration: _____% Professional/Managerial: _____%
8. Which, if any, HR functions have been outsourced and why: cost, speed, service, quality?

<i>Function</i>	<i>Reason</i>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

9. Which, if any, are your shared services functions?
- a. Transaction centers: (staffing admin.: i.e., central applicant database for multi-site company), payroll, benefits administration, employee records, etc.)

- b. Centers of expertise: (i. e., internal consulting groups)

10. Which, if any, functions or parts of functions have been delegated to other areas (line managers, division HR, or other staff departments)?

<i>Function</i>	<i>Delegated to</i>	<i>Reason</i>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

11. As a result of the restructuring: What is the redistribution of the HR staff?

<i>Delivery Site</i>	<i>% Before</i>	<i>% After</i>
Corporate Staff	_____	_____
Centers of Expertise	_____	_____
Service Centers	_____	_____
Field SBUs	_____	_____
Outsourced	_____	_____
Total	100%	100%

12. How do you measure / evaluate the success of each of the above: Cost, Quality, Efficiency Customer Satisfaction Survey (Insert all/any bold letters: C - Q - E - S that apply)

Corporate Staff _____ Centers of Expertise _____ Service Centers _____
Field SBUs _____ Outsourced vendors _____

13. Do you have an employee response center of some type? Yes _____ No _____

If yes, what types of inquiries or transactions does it most commonly handle?

Policy questions _____ Benefits issues _____ Pay issues _____ Procedures _____

Personal problems _____ Work problems _____ Legal questions _____

List others: _____

14. Do you have a corporate university? Yes _____ No _____

a. If yes, does it include on-site housing units? Yes _____ No _____

b. If yes, is it decentralized using telecommunications networks? Yes _____ No _____

c. If no, do you have a telecommunications network for training? Yes _____ No _____

15. Where are your training programs designed/purchased? Internal _____% External _____%

How are they delivered? Internal staff _____% External presenters/packages _____%

What percent of interventions are evaluated in hard dollar ROI? _____% Please give some examples including metrics: _____

16. What is the relationship between your organization's Quality and HR functions?

Separate _____ Quality reports through HR _____ Other _____

17. Did you benchmark other companies' metrics or practices before launching your program?

Yes _____ No _____ If yes, key things you learned that influenced your approach?

18. Do you engage in *formal* benchmarking projects at least annually? Yes _____ No _____

If yes, what functions, topics, etc., have you benchmarked? _____

If yes, what might you be considering benchmarking in the near future? _____

19. Have tangible benefits from restructuring been realized yet? If yes, in what areas:
 Cost reduction ____% Service improvement ____% Ease of administration ____%
 Other benefits or give brief examples please: _____

20. a. Did you use outside consultants to assist/advise in your restructuring?
 Yes ____ No ____ If yes, from academia ____ private consulting firms ____
 b. If you were doing it again which, if any, would you use? Please explain. _____

21. If you were advising someone on how to plan and carry out a restructuring project from the beginning, what are some of the key things you would recommend that they do to insure the highest possible degree of success?

22. What are the human asset issues that you believe will have potentially the greatest positive or negative effect on your company's competitive ability between now and the year 2000?
 a. _____
 b. _____
 c. _____
 d. _____
 e. _____

Questions? Call 408 556-1150. Thank you very much. Fax your responses to: 408 556-1155
 Mail form/diskette: Saratoga Institute, 3600 Pruneridge Ave., Suite 380, Santa Clara, CA 95051

Human Resources Restructuring Study Participants

Allergen

American Greetings Corp.

Amgen

Banc One Corporation

Chevron Corporation

Colgate Palmolive

Dell Computer

Dow Chemical Company

Eastman Chemical Company

Eastman Kodak Company

Eli Lilly & Company

Family Restaurants, Inc.

First Bank System

Ford, World Headquarters

Goodyear Tire & Rubber

Hasbro, Inc.

Hercules, Inc.

Hewlett Packard

PacifiCare Health Systems

Phillips Semiconductors

Public Service Company of Colorado

Raychem

San Diego Gas & Electric

The Iams Company

Transamerica Corporation

Unisys Corporation

